National Energy Board | Office national de l'énergie

Reasons for Decision

TransCanada PipeLines Limited

RH-1-2007

July 2007

Gros Cacouna Receipt Point Application

Canada

2008-03947/

National Energy Board

Reasons for Decision

In the Matter of

TransCanada PipeLines Limited

Application for approval of a new receipt point at Gros Cacouna, Quebec for the receipt of regasified liquefied natural gas and the toll methodology that will apply to service from that point.

RH-1-2007

July 2007

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Abbreviations

Act	National Energy Board Act
ADOE	Alberta Department of Energy
Bcf or Bcf/d	Billion cubic feet or billion cubic feet per day
Board or NEB	National Energy Board
BP Canada	BP Canada Energy Company
CAPP	Canadian Association of Petroleum Producers
EDA	Eastern Delivery Area
EIA	Energy Information Administration
Enbridge	Enbridge Gas Distribution
FERC	Federal Energy Regulatory Commission
FT	Firm Transportation
Gaz Métro	Société en commandite Gaz Métro
GMi EDA	Gaz Métro Eastern Delivery Area
GJ or GJ/d	Gigajoule or gigajoule per day
GLGT	Great Lakes Gas Transmission System
IGUA	Industrial Gas Users Association
IT	Interruptible Transportation
LDC	Local Distribution Company
LNG	Liquefied Natural Gas
Mainline	TransCanada Mainline natural gas transmission system
MMcf or MMcf/d	Million cubic feet or million cubic feet per day
PA	Precedent Agreement
Petro-Canada	Petro-Canada Oil and Gas
Quebec	Procureur général du Québec
Rabaska	Rabaska Limited Partnership
STFT	Short Term Firm Transportation

SWDA	Southwest Delivery Area
TBO	Transportation by Others
TJ or TJ/d	Terajoule or Terajoule per day
TQM	Trans Québec & Maritimes Pipeline Inc.
TTF	Tolls Task Force
TransCanada	TransCanada PipeLines Limited
Union	Union Gas Limited
U.S.	United States of America
USGC	United States Gulf Coast
WCSB	Western Canada Sedimentary Basin

Glossary of Terms

Cacouna LNG Terminal	Proposed LNG terminal and regasification facility located at Gros Cacouna, Quebec on the south shore of the St. Lawrence River.
Cost of Service	The total cost of providing service, including operating and maintenance expenses, depreciation, amortization, taxes and return on rate base. Generally the cost of service of a pipeline is the same as its revenue requirement.
Dawn	A North American gas marketing center located in Southwestern Ontario.
Delivery Area	A geographic area within a toll zone that is comprised of multiple delivery points where shippers receive delivery of their natural gas.
Delivery Point	A point where TransCanada delivers natural gas pursuant to a gas transportation contract.
Demand Charge	A monthly charge which normally covers the fixed costs of a pipeline. The demand charge is based on the daily contracted quantity and is payable regardless of quantities transported.
Eastern Market Area	The markets served by TransCanada east of North Bay Junction and Dawn.
Empress	Inlet to the TransCanada Mainline near the Alberta-Saskatchewan border.
Gros Cacouna Extension	The proposed TQM pipeline extension which, if and when approved and in service, would connect the Gros Cacouna receipt point to St. Nicolas, which is the terminus of the existing TQM system.
Incremental Tolls	Tolls resulting from a toll design methodology that assigns capital and operating costs of new facilities to their own cost pool, separate from the costs of the existing facilities. Tolls are designed so existing shippers pay a toll reflecting the cost of service associated with existing facilities; "new" shippers pay a toll reflecting the cost of service associated with new facilities.
Integrated System	Facilities owned directly by TransCanada as well as the contractual entitlements to transport natural gas on the GLGT, Union and TQM systems.

Liquefaction	The process by which natural gas is cooled and brought to a liquid state.
North Bay Junction	A receipt and delivery point on the TransCanada Mainline system, located at North Bay Compressor Station 116, in Ontario.
Open Season	A process in which a pipeline company offers either existing or new capacity to the market and receives bids for that capacity from market participants.
Procedure	The procedure of Adding Receipt and Delivery Points in TransCanada's Mainline Tariff.
Rate Base	The amount of investment on which a return is authorized to be earned. It usually consists of net plant in-service, plus an allowance for working capital.
Receipt Point	Either a single point or a delivery area at which TransCanada receives natural gas pursuant to a gas transportation contract.
Regasification	The process by which liquefied natural gas is heated and brought to a gaseous state.
RH-3-2004	NEB Proceeding on TransCanada's North Bay Junction Application (Reasons for Decision dated December 2004)
Rolled-in Tolls	Tolls resulting from a toll design methodology in which the capital and operating costs of new facilities are added to those of the existing facilities; i.e., there is one cost pool for all facilities. Tolls are designed to recover the annual cost of providing service. All shippers who receive the same service pay the same toll. Tolls only vary according to such factors as volumes and distance.
Stand-alone Tolls	Tolls that would be paid by only those shippers utilizing specific facilities or assets that are physically distinguishable from the existing facilities. They would be based on a revenue requirement independent of that calculated for the rest of the system.
St. Nicolas	A delivery point in the GMi EDA on TransCanada's Integrated System, located at the terminus of the existing TQM system.

Tariff	The terms and conditions under which the services of a pipeline are offered or provided, including the tolls, the rules and regulations, and the practices relating to specific services.
Toll	The price charged by a pipeline company for transportation and other services.
Toll Zone	For the purposes of setting tolls, long haul domestic FT shippers pay tolls according to the toll zone to which gas deliveries are made. All deliveries within the same toll zone pay the same toll.
Tolls Task Force	A joint industry task force initiated by TransCanada. Its membership is comprised of a wide cross-section of the natural gas industry, including representatives of the producing, marketing, brokering and pipeline segments of the industry, provincial governments and local distribution and industrial end-use customers.

Recital and Appearances

IN THE MATTER OF the *National Energy Board Act* and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada PipeLines Limited dated 5 December 2006 pursuant to Part IV of the *National Energy Board Act* for approval of a new receipt point at Gros Cacouna, Quebec for the receipt of regasified liquefied natural gas and the toll methodology that would apply to service from that point, filed with the National Energy Board under File No. OF-Tolls-Group1-T211-2006-10 01; and

AND IN THE MATTER OF National Energy Board Hearing Order RH-1-2007 dated 22 January 2007;

HEARD in the city of Québec, Quebec on 16, 17, 18, 19, 20, 23 and 24 April 2007;

BEFORE:

G. Caron	Presiding Member
J.S. Bulger	Member
R.R. George	Member

Appearances	**Company**	**Witnesses**
Mr. C. K. Yates, Q.C. Mr. J.J. Herbert	TransCanada PipeLines Limited	M. Feldman S. Pohlod J. Reed C. Tosi R. Whitmore G. Zwick
Mr. N.J. Schultz	Canadian Association of Petroleum Producers	
Mr. G. Sarault	Industrial Gas Users Association	
Ms. C. G. Worthy	BP Canada Energy Company	
Mr. J. H. Farrell	Enbridge Gas Distribution	
Mr. G. Cameron	Petro Canada Oil and Gas	G. Lyon J. MacPherson M. Rogers

Mr. D. G. Davies	Rabaska Limited Partnership	M. Drazen P. Harris G. Kelly J. Otsason A. Zlahtic
Mr. L.-A. Leclerc Mr. L.-C. Ratelle	Société en commandite Gaz Métro	L. Mercier F. Morel
Mr. L.E. Smith, Q.C.	Union Gas Limited	
Mr. G. Hervieux		G. Hervieux
Mr. B. Prenevost Mr. J. Shaw	Alberta Department of Energy	
Mr. M. Bouchard Mr. R. Richard	Procureur général du Québec	
Ms. C. Beauchemin	National Energy Board	

Chapter 1

Introduction

1.1 Background

TransCanada PipeLines Limited (TransCanada) owns and operates the Mainline natural gas transmission system (Mainline), which extends from the Alberta border across Saskatchewan, Manitoba, Ontario, through a portion of Quebec and connects to various downstream Canadian and international pipelines.

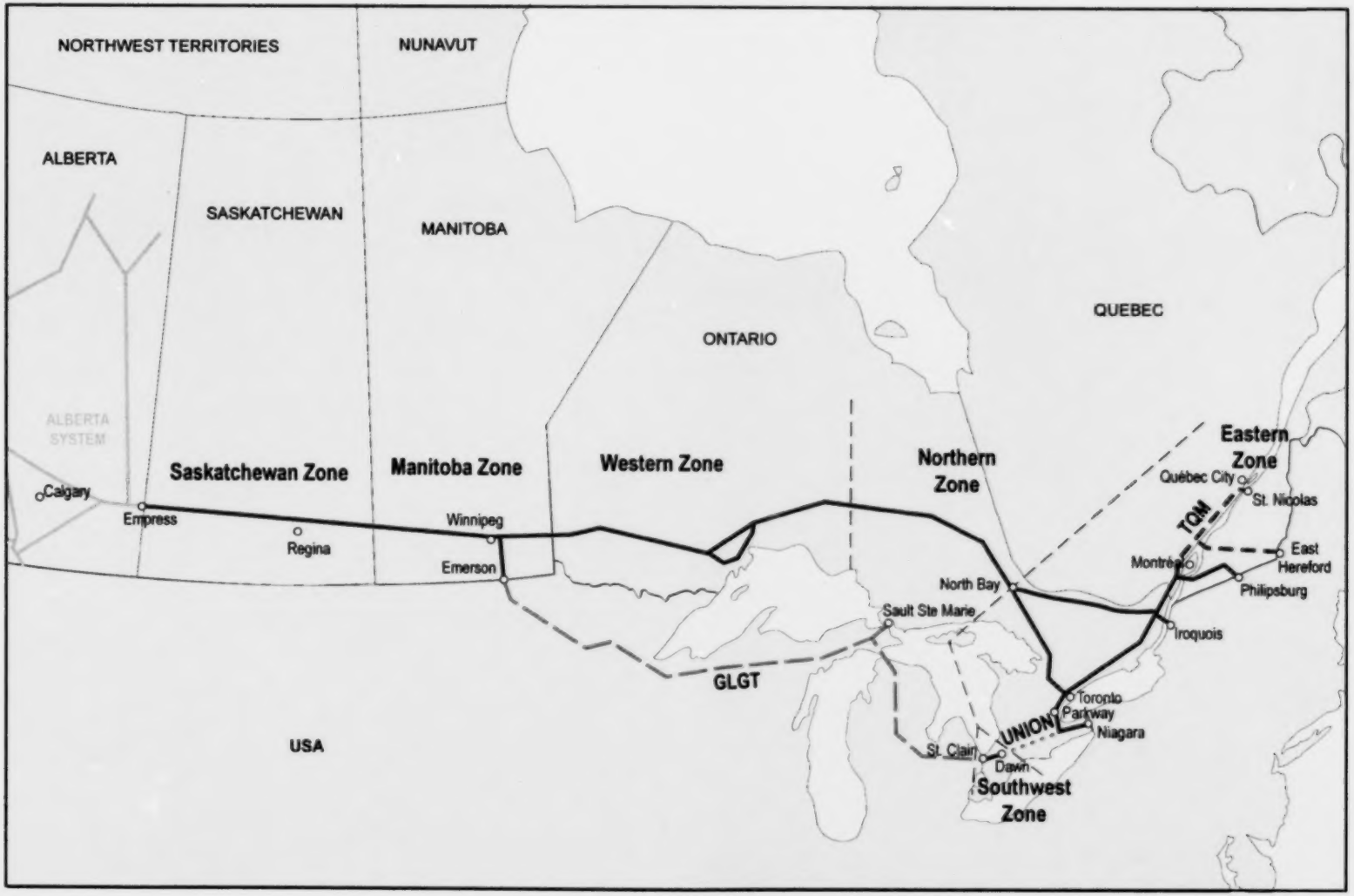
In addition, the Mainline Integrated System includes contractual entitlements to transport natural gas on the Great Lakes Gas Transmission System (GLGT) from Emerson, Manitoba to St. Clair, Michigan; on the Union Gas Limited (Union) system from Dawn, Ontario to Parkway, Ontario and to Kirkwall, Ontario; and the Trans Québec & Maritimes Pipeline Inc. (TQM) system from St. Lazare, Quebec to St. Nicolas, Quebec and East Hereford, Quebec. Figure 1-1 is a map of the TransCanada Mainline Integrated System.

In an application dated 5 December 2006, as amended on 13 February 2007, TransCanada applied to the National Energy Board (Board or NEB) under Part IV of the *National Energy Board Act* (Act) for an order approving a new receipt point at Gros Cacouna in the province of Quebec for the receipt of natural gas from a liquefied natural gas (LNG) regasification terminal. TransCanada also sought affirmation that the new receipt point would be served as an integrated part of TransCanada's Mainline, and that the tolls for services from the new receipt point would be calculated with the same rolled-in methodology used to calculate tolls for services from other receipt points east of the Saskatchewan Zone.

TransCanada indicated that it is applying for the new receipt point to accommodate a request for service that was submitted by Petro-Canada Oil and Gas (Petro-Canada) who plans to transport natural gas from Gros Cacouna using TransCanada's Integrated System. TransCanada and Petro-Canada, on behalf of a new entity to be known as Cacouna Energy, intend to construct and operate an LNG terminal and regasification facility located at Gros Cacouna, Quebec on the south shore of the St. Lawrence River (Cacouna LNG terminal), approximately 240 km north east of the terminus of the existing TQM system at St. Nicolas.

The proposed Cacouna LNG terminal would introduce a new source of gas supply to the TQM system. Receipt of volumes related to this project would necessitate facilities additions on both TransCanada and TQM. Specifically, in order to meet the request for service, TransCanada would need to modify one compressor station at Les Cèdres for reverse flow capability. In addition, TransCanada would need to contract for additional service on TQM which would require facilities additions on the TQM pipeline. Figure 1-2 is a map of the proposed TQM pipeline extension.

Figure 1-1
TransCanada Mainline and TQM System



On 13 December 2006 and 8 January 2007 respectively, the Board received two letters from the Industrial Gas Users Association (IGUA) submitting that the Board should refuse to address the question of the appropriate toll methodology for the new receipt point at this time.

The Board also received submissions from the Alberta Department of Energy (ADOE), Canadian Association of Petroleum Producers (CAPP), Enbridge Gas Distribution (Enbridge), Petro-Canada, Procureur général du Québec (Quebec), Rabaska Limited Partnership (Rabaska), Société en commandite Gaz Métro (Gaz Métro), Union and TransCanada on the appropriate process and associated timelines that should be used to deal with TransCanada's application.

On 22 January 2007, the Board issued a letter stating that it was of the view that it was appropriate for it to hear an application so long as it is complete and is not being brought forward in a piecemeal fashion for inappropriate purposes. The Board noted that there is ample precedent for submitting applications for staged approvals. In this case, the Board found that TransCanada's application was legitimately delineated with sufficient supporting information and had a defined purpose based on commercial requirements. Regarding IGUA's comment that the hearing could be extremely divisive, the Board noted that potentially any hearing can be controversial, however the Board saw no justification to postpone a hearing for this reason. The Board found that setting down TransCanada's application for a hearing was appropriate and lawful under Part IV of the Act even in the absence of a corresponding application under Part III of the Act.

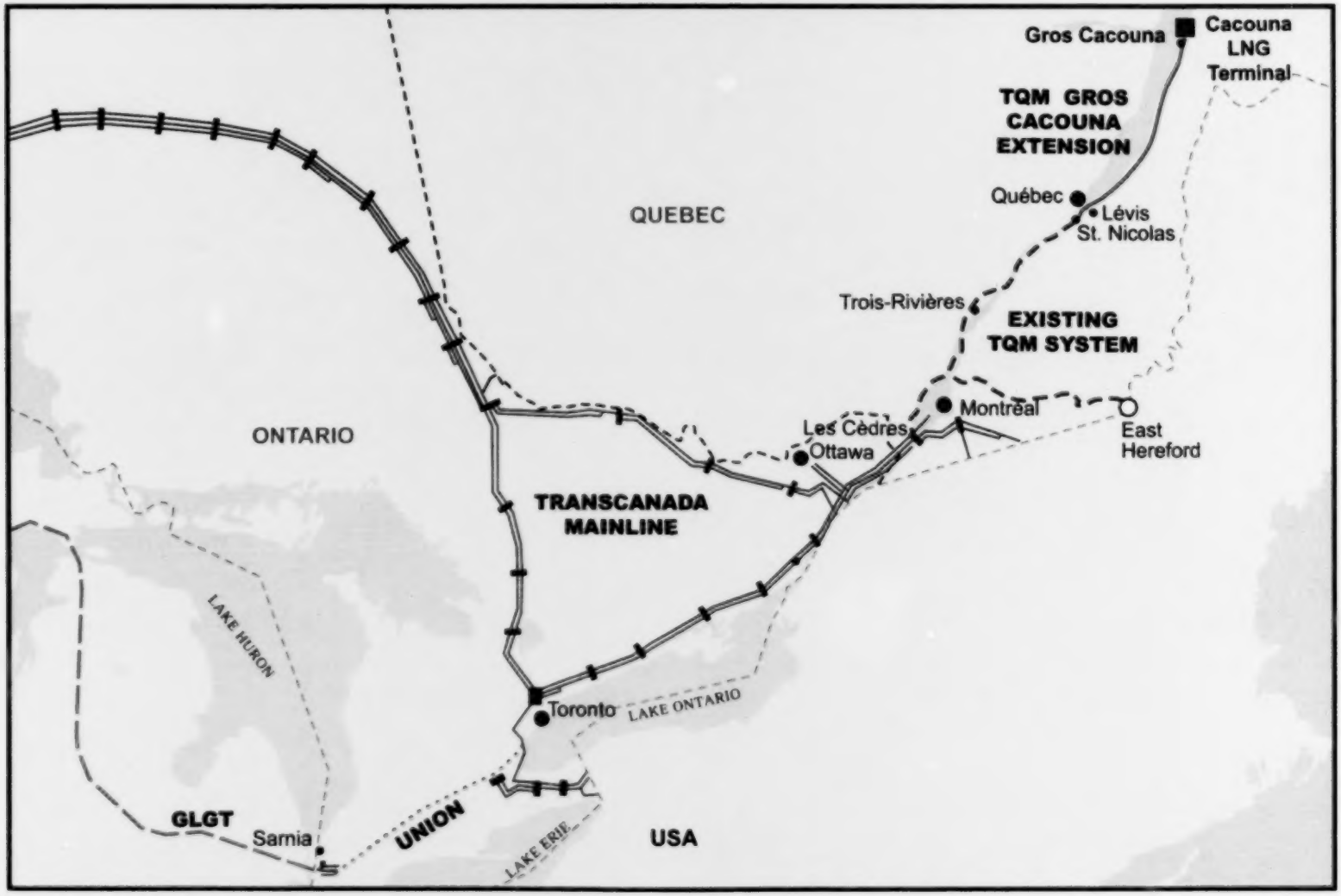
The Board further noted that it has a role to enable the responsible development of Canada's energy sector for the benefit of Canadians. Part of this role involves providing stakeholders with regulatory certainty with respect to toll methodology. The Board recognized the key role that toll design could play in determining the economic viability of the proposed Cacouna LNG terminal project at Gros Cacouna. The Board therefore believed that it was appropriate, timely and prudent for parties to seek assurance from the Board concerning the appropriate toll methodology prior to incurring significant expenditures or entering into long-term commitments.

1.2 Overview of the Application

In its application dated 5 December 2006, as amended on 13 February 2007, TransCanada requested an Order from the Board approving Gros Cacouna as a receipt point and affirming the applicability of the prevailing toll methodology to the determination of tolls for services provided at Gros Cacouna. TransCanada stated that the existing toll methodology includes the roll-in of prudently incurred costs and a point-to-point distance methodology for hauls with receipts east of the Saskatchewan Zone. TransCanada therefore also sought affirmation that prudently incurred costs required to provide service from Gros Cacouna would be included in the determination of the Mainline revenue requirement.

TransCanada further requested that the Board Order be made effective as of the date when the facilities required to connect the Gros Cacouna receipt point to the existing TQM system, which is part of the Mainline Integrated System, are placed in service.

Figure 1-2
Cacouna LNG Terminal and Proposed TQM Gros Cacouna Extension



1.3 List of Issues

In its RH-1-2007 Hearing Order, the Board identified, but did not limit itself to, the following issues for discussion in the proceeding:

1. The appropriateness of approving Gros Cacouna as a receipt point.

2. The potential impact on shippers and other services of applying the existing toll methodology, or any alternate proposals, to determine the tolls for services from the proposed Gros Cacouna receipt point.

3. The appropriateness of applying the existing Mainline toll methodology or any alternate proposals to the determination of tolls for services from the proposed Gros Cacouna receipt point.

A fourth issue "The extent to which the issue of gas interchangeability needs to be addressed in TransCanada's tariff, and if so, in what manner" was removed from the List of Issues following a request from TransCanada dated 2 February 2007 which was supported by Gaz Métro, Enbridge and Union. The Board was of the view that gas interchangeability is an important issue. However, the Board found that it was not imperative to address this issue in the context of this proceeding since TransCanada indicated that it was working with the gas industry to develop interchangeability standards and that it would seek Board approval of these standards at a later date. Additionally, the Board decided not to grant a request from Mouvement Au Courant, represented by Mr. John Burcombe, to add the issue "With respect to the Kyoto Protocol, how would the project impact the goal of reducing greenhouse gases in Canada?" The Board indicated that it viewed this issue as being outside the scope of this application.

1.4 Overview of LNG

In support of TransCanada's application, Petro-Canada submitted evidence recognizing the projected gas supply shortfall in North America and the intention to take a strategic initiative to further develop Petro-Canada's LNG business to include regasification capacity for imported LNG at Gros Cacouna. The company saw great potential for the supply of gas into the North American market where forecasted production from current sources of indigenous natural gas are expected to continue to decline while forecasted demand is expected to increase.

LNG Value Chain

Petro-Canada emphasized the importance of understanding the LNG value chain when considering the economics of an LNG project, such as the Gros Cacouna LNG Project. The LNG value chain has five major elements:

1. Upstream Development – typically referred to as exploration and production, or "cost of supply"

2. Liquefaction – the process by which natural gas is cooled and brought to a liquid state

3. Shipping – the transport of LNG from the liquefaction plant to the receiving regasification terminal

4. Regasification – the process by which LNG is heated and brought to a gaseous state

5. Downstream Marketing – the transportation and sale of natural gas from the regasification terminal to the natural gas end markets

Petro-Canada stated that all of these elements are taken into consideration when evaluating the economics of a project, and within each of these five elements there are a number of different variables. Petro-Canada acknowledged that one individual variable of any of the elements' costs would not independently make or break any contract or project, but some of them can show directionally how the project may progress.

LNG Supply

It was agreed by many intervenors that the introduction of LNG into North America would enable increased resource availability and potentially create a more competitive environment where markets could diversify their sources of supply.

Petro-Canada submitted that LNG is a global commodity and the acquisition of LNG for a regasification facility involves discussions with suppliers from many parts of the globe. In its evidence, Petro-Canada discussed different categories of supply for the Cacouna LNG terminal.

I. Term Volumes

a) Purchases - Volumes received where an owner of regasification capacity at a terminal buys the gas from an upstream producer, regasifies it at the facility, and markets the gas on its own behalf.

b) Capacity Releases - A gas supplier, other than an owner of the regasification facility, uses the facility but retains ownership of its gas to sell into the market.

II. Proprietary Volumes

An owner of upstream supply delivers LNG to a terminal where they also retain ownership and therefore can regasify the commodity for subsequent transportation and sale into the end market.

III. Spot/Short Term Volumes

Throughout the life of the Cacouna LNG terminal, there exists the ongoing opportunity to purchase spot or short-term cargoes. Petro-Canada seeks to sign Master Spot Agreements with major LNG suppliers, which would act as a framework for the purchase of such cargoes. The Cacouna LNG terminal would be positioned as a strategic entry point into an attractive market for international suppliers that would be interested in supplying the facility with non-contracted LNG.

LNG Netback Calculation

Petro-Canada affirmed that netback is one of the most important variables that LNG suppliers take into account in deciding where to send their gas. Petro-Canada testified that netback is a calculation that uses the following subtraction process.

The starting point in the calculation is the market price, which is the price that natural gas is being traded at in a given downstream market. From the market price the cost of transportation from the natural gas supply point, in this case the regasification terminal, to the market is subtracted, as is the cost of regasification. Furthermore, costs of the upstream components of the value chain are subtracted. These costs include the cost of shipping the LNG from the liquefaction terminal in the supply region to the regasification terminal in the demand region, the cost of liquefaction, the cost of transporting the original natural gas from the wellhead to the liquefaction terminal, and finally the costs associated with the exploration and production of the commodity. In the end, this netback calculation yields the netback price at the wellhead for a unit of natural gas.

Suppliers and downstream marketers use this calculation to work out the best netback and subsequently make an economically based decision regarding which region to deliver LNG supply to, or conversely which region to seek LNG supply from.

Need for New Natural Gas Supply

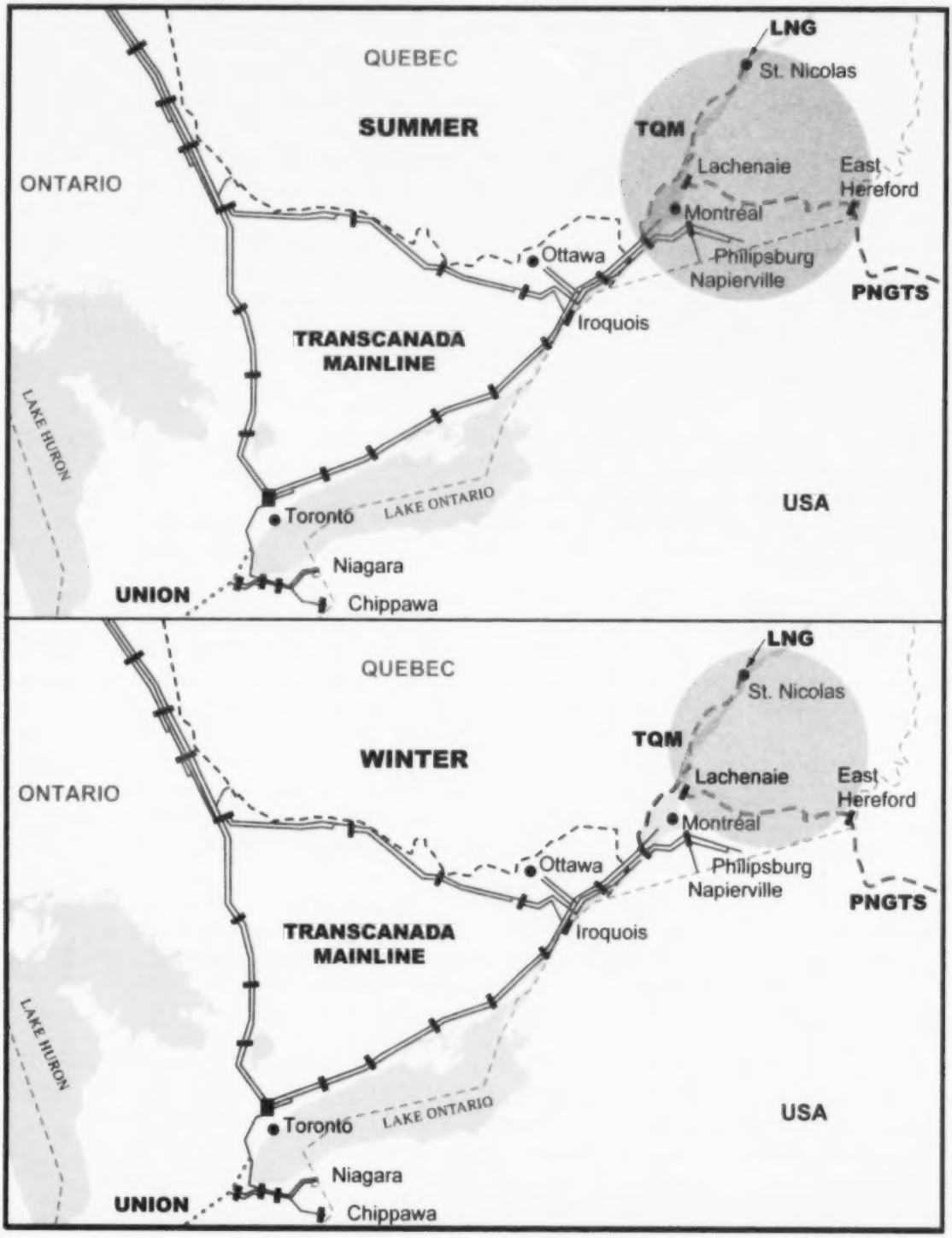
TransCanada's Perspective

According to evidence submitted by Mr. Reed, on behalf of TransCanada, due to both the maturation and decline of most of the natural gas resource basins in North America, and the existing and the incremental gas demand requirements of the continent, there is a need for additional gas supply. Mr. Reed stated that gas supply is being influenced by a flattening of supply from the Western Canada Sedimentary Basin (WCSB) due to production maturation, an increased demand for natural gas for western Canadian oil sands development, and increased regional Local Distribution Company and power generation natural gas demands. Overall, Mr. Reed submitted that the incremental gas demand coupled with the supply in-fill requirement in the defined market of Ontario, Quebec, New York, and New England would total 6,920 MMcf/d by 2020.

Mr. Reed noted that North America and other regions would likely be reluctant to encourage complete substitution of on-shore and pipeline transported gas supplies with supplies of LNG due to demand growth and the need for diversification of supplies. Therefore, growth in LNG supply would not equate to a one-for-one reduction in demand for WCSB supply.

TransCanada discussed how the Quebec LNG/western gas supply interface point would respond to regional shifts in the supply/demand balance that would develop from introduction of Quebec LNG. Figure 1-3 shows the expected physical reach of LNG supply that is proposed to be introduced at Gros Cacouna.

Figure 1-3
Expected Quebec LNG/Western Supply Interface by Season



Petro-Canada's Perspective

Petro-Canada submitted that conventional gas production from the WCSB is expected to drop sharply after 2010. This decline may be offset by production from newer sources (Mackenzie Delta gas and coalbed methane), but production from these newer sources is not expected to be sufficient to prevent a decline in Canadian gas production.

Petro-Canada also submitted that current supplies from the East Coast of Canada are not expected to change significantly over the period.

Petro-Canada's evidence further stated that the Energy Information Administration projected that gas supply from the United States Gulf Coast (USGC) will increase out to 2015, but decline thereafter to a level equal to that of 2005. In addition to its current markets, the USGC is expected to supply gas to the growing South Atlantic and East South Central consumption regions. Even if production from the USGC could be increased enough to satisfy the demand of all the regions it is supposed to supply, the construction or expansion of pipelines from the south through the densely populated region of the northeast would be difficult. Expansions would be required as many of the large pipelines currently operate at high utilization rates.

Petro-Canada added that one of the other supply growth areas in the U.S. is the Rocky Mountain region (Rockies). The Rockies Express Pipeline is being constructed to move gas east from the Rockies to eventually reach western Pennsylvania. Petro-Canada explained that this extension would not be completed until 2010 and it is not clear how much gas would eventually be delivered into the northeast as there are several delivery points to major consuming markets upstream of the final delivery point.

A number of intervenors also provided evidence or views to support TransCanada's application and the position that the Gros Cacouna LNG Project would provide needed incremental gas supply to the region. No party contradicted the applicant's or Petro-Canada's evidence with respect to the state of the supply situation in North America.

Chapter 2

Request for a New Receipt Point at Gros Cacouna

2.1 Overview

TransCanada applied to the Board for approval to add a new receipt point at Gros Cacouna, Quebec, located approximately 240 km north east of the terminus of the existing TQM system at St. Nicolas. The applicant also sought affirmation from the Board that prudently incurred costs required to provide service from Gros Cacouna would be included in the determination of the Mainline revenue requirement.

The application is to accommodate a request received by TransCanada from Petro-Canada for 525 TJ/d (approximately 500 MMcf/d) of Firm Transportation Service (FT) to transport natural gas from the Gros Cacouna receipt point to five existing domestic delivery areas and two existing export points on the Integrated System commencing 1 December 2009. The receipt point would introduce a new source of gas supply to the TQM system from the proposed Cacouna LNG terminal.

In response to an open season for new and existing capacity on the Integrated System, TransCanada received firm service requests from multiple parties including the request from Petro-Canada. After further negotiation, Petro-Canada signed a Precedent Agreement (PA) with TransCanada on 12 October 2006 which commits Petro-Canada to 20 years of FT demand charges for the requested service from the Gros Cacouna receipt point and also requires Petro-Canada to compensate TransCanada for expenses incurred in developing necessary facilities in the event that Petro-Canada later decided to withdraw its service request.

In order to meet the request for service to transport the requested volumes from Gros Cacouna, additional facilities would be required on both the TransCanada and TQM systems. TransCanada would need to modify its compressor station at Les Cèdres to enable reverse flow capability at an estimated capital cost of approximately $26 million. In addition, TransCanada would need to contract for additional service on TQM which would require facility additions to extend the TQM pipeline at an estimated cost of $712 million.

2.2 Mainline Tariff Procedure for Adding Receipt Points

Background

In the RH-3-2004 proceeding, where TransCanada applied to the Board for approval to establish the North Bay Junction (NBJ) as a new receipt and delivery point on the Mainline, a number of questions arose concerning how TransCanada had handled requests for new receipt and delivery points at that time. Shippers were seeking a clear and transparent process to ensure that the implications of adding a new receipt or delivery point are fully assessed.

In its Decision approving the addition of the NBJ receipt and delivery point, the Board directed TransCanada to file proposed tariff additions to codify the information that TransCanada requires, the criteria to be applied by TransCanada, and the expected timeframe required to evaluate and respond to proposals for new receipt and delivery points. The objective of imposing this requirement was to clarify the flow of information between TransCanada and requestors, and to ensure consistent and fair treatment for all requests.

In response to that Decision, TransCanada and its Tolls Task Force (TTF) developed the procedure that is currently used to evaluate requests for receipt and/or delivery points on the TransCanada Integrated System. The procedure was approved by the Board as an addition to the Mainline Tariff on 31 May 2005. The Procedure for Adding Receipt and Delivery Points (Procedure) was included in TransCanada's application[1], and provides the framework for evaluating the proposal to add a new receipt point at Gros Cacouna.

TransCanada's Evaluation of the Gros Cacouna Receipt Point

TransCanada indicated that it had received a number of requests for new receipt points on TQM including requests from Petro-Canada for Gros Cacouna, Rabaska for St. Nicolas, and GDF Québec for Lévis or St. Nicolas. TransCanada submitted that it had treated all requests equally and its evaluation of each request was made in accordance with the Procedure. TransCanada also affirmed that the evidence, analyses and recommendations provided in its application were prepared and made entirely by the Mainline, independent of and unbiased by any other corporate interest.

To ensure consistent and fair treatment of all requests, the Procedure requires consideration of the following matters in the determination of whether to add a receipt or delivery point: (i) toll impacts; (ii) operational and system design impacts; (iii) contractual impacts; (iv) transportation by others (TBO) contracts; and (v) other relevant considerations.

In each case, TransCanada determined that the information provided by the three requestors had met the criteria of the Procedure, and it informed the requestors of further requirements, including the execution of a pre-requisite PA for transportation service. TransCanada indicated that a PA was required to indemnify TransCanada for the costs that it would incur in order to advance projects to meet these requests, including the cost of regulatory proceedings and contractual arrangements with TQM. Moreover, TransCanada also indicated that the terms of the PA protected the existing Mainline shippers from risk and expense. A 20-year PA was signed by Petro-Canada and was filed as part of TransCanada's evidence.

Toll Impacts

TransCanada provided evidence to illustrate the expected impact from receiving additional natural gas volumes from the Gros Cacouna receipt point on the total transportation costs on its Integrated System. The impact on total transportation cost is the sum of the impact on transportation tolls and the impact on the fuel and electricity required to move gas on its system.

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1 TransCanada Pipelines Limited – Gros Cacouna Receipt Point Application, Appendix 4

To illustrate the impact of Quebec LNG imports from the Gros Cacouna receipt point, TransCanada compared the total transportation costs for two cases: a No Quebec LNG case, and a case with 525 TJ/d of contracted transportation from Gros Cacouna to the various delivery points in the quantities outlined in the PA (the Application Case). As part of the analysis, TransCanada provided its forecasts for the throughput on various sections of the Mainline. These throughput forecasts indicated that the introduction of the new supply was expected to add volumes on certain portions of the Integrated System and displace existing volumes on other portions.

TransCanada submitted that the total transportation cost impact was the result of three factors. First, the cost of additional Mainline facilities and TQM service, including the Gros Cacouna Extension, would result in an increase to the transportation tolls paid by TransCanada shippers. Second, the new volumes from the Gros Cacouna receipt point may impact the total billing determinants used to calculate the tolls and fuel requirements for specific hauls. The Quebec LNG volumes would increase billing determinants on TQM, while displacement of flows would reduce billing determinants on other portions of the Mainline. The expected net effect of both was an increase in the overall energy billing determinants and energy-distance billing determinants. Finally, the overall fuel consumption and electrical requirements on the Integrated System would be reduced as new volumes from the Gros Cacouna receipt point would displace existing throughput from Dawn, Empress and Saskatchewan. Specifically, the new volumes from the Gros Cacouna receipt point are expected to increase fuel consumption and electrical requirements on TQM and some Mainline facilities, and the displacement of throughput is expected to reduce fuel consumption and electrical requirements on other portions of the Mainline. The expected net effect of these impacts is a reduction in the overall fuel and electrical requirements for the Integrated System.

Based on existing toll methodology, TransCanada's evidence suggested that use of the Gros Cacouna receipt point would result in a relatively small economic impact to existing shippers. The total transportation cost impact, for all hauls, would be relatively stable over time and range from approximately 0¢/GJ to 3¢/GJ over the first ten year period. TransCanada estimated that the total cost to transport natural gas from Empress to the Eastern Zone would increase only slightly, from $1.360/GJ in the case with No Quebec LNG, to $1.362/GJ following the introduction of new supply from the Gros Cacouna receipt point. In addition, the total transportation cost for short hauls in the eastern market area are not expected to be materially impacted by the use of the Gros Cacouna receipt point, as was indicated by the estimated toll for North Bay Junction and Dawn receipt hauls. TransCanada's evidence indicates that the impact on the Eastern Zone and short haul total transportation costs would be less than one cent/GJ in the first five years following the introduction of supply from the new receipt point.

TransCanada also stated that applying the existing toll methodology from the Gros Cacouna receipt point would ensure that all receipt points east of the Saskatchewan Zone would be tolled in the same manner, and that the total transportation costs for hauls from the Gros Cacouna receipt point would be comparable to other short hauls in the eastern market area on a distance basis.

In addition, TransCanada provided two sensitivity cases in its analysis, where the assumptions in its Application Case were varied (1) to increase the contracted quantity from the receipt point

from 525 TJ/d to 1062 TJ/d; and, (2) to increase capital costs by $100 million for higher actual costs or additional facilities. The sensitivity cases showed negligible change to the total transportation costs for all hauls relative to the Application Case.

Concurrent with its evaluation of the Gros Cacouna receipt point pursuant to the Procedure, TransCanada also provided an analysis of various alternate toll methodologies to ensure that no better alternatives existed that would produce just and reasonable toll outcomes, to ensure long-run competitiveness and to ensure fairness amongst existing and new shippers transporting gas from the new supply source. TransCanada assessed four alternative toll methodologies:

- Alternative #1: the existing Integrated System from Empress to St. Nicolas and a stand-alone segment from the Gros Cacouna receipt point to St. Nicolas;
- Alternative #2: a system from Empress to Les Cèdres and a stand-alone TQM system;
- Alternative #3: a system from Empress to North Bay Junction and Dawn and a stand-alone eastern market area; and
- Alternative #4: a system from Empress to North Bay Junction and Dawn, a stand-alone eastern market area and a stand-alone TQM system.

This analysis showed that each alternate toll methodology would result in significant changes to the total transportation costs for certain hauls while at the same time not materially affecting other hauls.

Table 2-1, below summarizes TransCanada's evidence on the estimated total transportation costs for various hauls on the TransCanada system.

Table 2-1
Total Transportation Cost ($/GJ) for Illustrative Hauls

Total Transportation Cost ($/GJ) - based on 525 TJ/d of contracted transportation from Gros Cacouna													
Illustrative Hauls		No Quebec LNG		Gros Cacouna Application		Alternative #1		Alternative #2		Alternative #3		Alternative #4	
Receipt Point	Delivery Point	2010-2014	2015-2019	2010-2014	2015-2019	2010-2014	2015-2019	2010-2014	2015-2019	2010-2014	2015-2019	2010-2014	2015-2019
Empress	Emerson	0.490	0.503	0.491	0.514	0.480	0.501	0.468	0.487	0.400	0.420	0.400	0.420
	Eastern Zone	1.360	1.403	1.362	1.432								
	Enbridge CDA	1.360	1.403	1.362	1.432	1.330	1.395	1.283	1.340	1.392	1.452	1.333	1.391
	GMI EDA	1.360	1.403	1.362	1.432	1.330	1.395	1.392	1.445	1.392	1.452	1.442	1.496
	North Bay Junction	1.184	1.210	1.189	1.240	1.160	1.208	1.131	1.174	1.032	1.083	1.032	1.083
Dawn	GMI EDA	0.412	0.423	0.412	0.431	0.403	0.421	0.465	0.476	0.717	0.708	0.671	0.662
	Iroquois	0.326	0.335	0.326	0.342	0.319	0.333	0.312	0.325	0.553	0.547	0.485	0.481
	Enbridge EDA	0.364	0.374	0.364	0.361	0.356	0.372	0.348	0.362	0.625	0.618	0.548	0.543
Gros Cacouna	GMI EDA			0.261	0.273	0.515	0.505	0.545	0.526	0.429	0.424	0.545	0.526
	Union EDA			0.365	0.382	0.616	0.611	0.779	0.761	0.627	0.619	0.806	0.781
	Enbridge EDA			0.357	0.373	0.608	0.602	0.771	0.753	0.611	0.603	0.792	0.767
	Union CDA			0.500	0.523	0.748	0.748	0.907	0.895	0.883	0.873	1.031	1.004
	Union SWDA			0.624	0.652	0.869	0.873	1.024	1.016	0.118	1.105	1.237	1.208
	Iroquois			0.327	0.343	0.579	0.573	0.743	0.724	0.555	0.548	0.743	0.719
	East Hereford			0.337	0.352	0.589	0.582	0.826	0.797	0.573	0.566	0.826	0.797

Operational and System Design Impacts

Currently the design of TQM utilizes Mainline compression facilities at Les Cèdres and relies on the Mainline for a portion of its loss of critical unit protection. The integrated design requires that gas transportation operations of TQM be coordinated with that of the Mainline. TransCanada indicated that the volumes associated with the Gros Cacouna receipt point would not materially

impact the day-to-day operations of the TransCanada system and are not expected to impact TransCanada's current capacity allocation procedures. All nominations related to the Gros Cacouna receipt point would be treated consistently with nominations from existing receipt points.

TransCanada stated that the primary impact from the introduction of the Gros Cacouna receipt point and new supply is that TQM would likely require compression from the Mainline at Les Cèdres on an intermittent basis, and require greater coordination between the two systems. Moreover, TransCanada expects that the new supply and the additional capacity required by TQM to meet the request for service would facilitate additional diversions and enhance the service flexibility to existing firm shippers, and provide the Mainline with increased opportunity for the sale of discretionary services.

Contractual Impacts

Contractual impacts were examined to ensure that there is a reasonable likelihood that necessary changes or additions to Mainline transportation service contracts as a result of the Gros Cacouna receipt point would be executed on commercially reasonable terms. TransCanada indicated that approval of the Gros Cacouna receipt point would result in the addition of FT service contracts for the quantities and specific delivery points as outlined in the PA. The FT service contracts would also have a term of 20 years which is much greater than the current 29 month volume weighted average contract term for all Mainline FT service.

The new supply at the Gros Cacouna receipt point is expected to cause some displacement of existing throughput from other regions. Accordingly, TransCanada anticipates a reduction in contracted transportation from Dawn, Empress and Saskatchewan, approximately corresponding to the expected throughput displacement. This reduction in Mainline contracts would likely consist of a combination of FT, Short-Term Firm Transportation (STFT) and Interruptible Transportation (IT) service quantities. Tariff modifications may also be required to address gas quality issues arising from Quebec LNG.

Transportation by Others (TBO) Contracts

TBO contracts were also examined to ensure that there is a reasonable likelihood that necessary changes or additions to TBO contracts to accommodate the Gros Cacouna receipt point would be executed on commercially reasonable terms. In order to meet the request for service from the Gros Cacouna receipt point, TransCanada would need to contract for additional service on the TQM system which would require additional facilities to extend the TQM pipeline at an estimated cost of $712 million. TransCanada estimated that the additional TQM facilities would increase the annual TQM cost of service from $81 million to $156 million in the first full year following the start of the service request.

TransCanada and TQM negotiated the terms and conditions of the TQM service required to accommodate the service request. The negotiations resulted in a PA between TransCanada and TQM that was executed on 27 November 2006. This agreement, among other obligations, requires TransCanada to indemnify TQM for expenses incurred in developing necessary facilities in the event that TransCanada decided to withdraw its request for service. The

agreement also commits TransCanada to a 20-year contract for service from the Gros Cacouna receipt point, which matches the contract term of Petro-Canada for Mainline FT service from the receipt point.

Other relevant considerations

TransCanada also indicated that gas interchangeability may be a relevant factor in considering the addition of the Gros Cacouna receipt point. Gas interchangeability is defined as the ability to substitute one gaseous fuel for another in a combustion application without materially changing operational safety, efficiency, performance or materially increasing air pollutant emissions. In this regard, TransCanada committed to work with the gas industry, including its TTF, to develop gas interchangeability standards which were not an issue for this application. At the appropriate time, TransCanada will seek Board approval of gas interchangeability standards through revisions to the Mainline Tariff.

TransCanada's Conclusions

TransCanada concluded from its evidence that approval and utilization of the Gros Cacouna receipt point would be appropriate since it would result in no adverse impact on operations or system design and there would be no adverse contractual impacts. In addition, use of TransCanada facilities and TQM service required to provide service from the Gros Cacouna receipt point would result in only a relatively small economic impact to existing shippers under the existing toll methodology. Based on the existing toll methodology, TransCanada was of the view that the addition of the Gros Cacouna receipt point would result in tolls that are just and reasonable, fair and cost-based.

TransCanada indicated that it had treated all requests equally and properly, and in accordance with the approved Procedure. TransCanada further indicated that the application deals only with the Petro-Canada request for Gros Cacouna and not other requests simply because the 20-year PA was signed by Petro-Canada and not by others. The terms of the PA indemnified TransCanada for the costs that it would incur in advancing the Gros Cacouna extension -- including the cost of regulatory proceedings like this one -- and the terms of the PA also protected the existing shippers from risk and expense. TransCanada stated that the fact that Rabaska did not sign a PA, and Rabaska's views on whether it should have to do so, were irrelevant to this application.

2.3 Position of Parties

IGUA

IGUA fully supported the approval of Gros Cacouna as a receipt point based on its potential to introduce as much as 525 MMcf/day of new gas supply which would provide significant benefits to eastern end users through competition and a possible reduction in commodity prices.

IGUA explained that its mandate is to ensure fair and equitable access to flexible gas supplies, transportation, storage and distribution services that are reasonably priced on behalf of its members in Manitoba, Ontario, and Quebec. IGUA believed that TransCanada's Gros Cacouna

receipt point application would meet those objectives. Although some of its members could see reductions in their overall transportation costs while other members would see increases in their overall transportation costs, IGUA concluded that the benefits presented by a new source of supply from Gros Cacouna far outweighed the perceived costs.

IGUA also indicated that financial and business impacts do not justify a move away from traditional tolling principles that are fair and equitable and fully justifiable under the present circumstances. IGUA pointed to controversial past NEB hearings during the late 1980s to illustrate that the impact to transportation tolls and fuel costs to existing TransCanada shippers in those proceedings far outweighed the transportation cost impacts contemplated in this proceeding. In the case of the Gros Cacouna receipt point application, IGUA noted that the estimated total transportation cost impact is less than one cent/GJ in the first five years, and stated that it is relatively insignificant in comparison to the benefits produced by the LNG facilities.

IGUA believed that the need for new gas supply is clear and the evidence filed by a number of intervenors demonstrated that deliverability and gas production levels have started to decline in North America, including from the WCSB. Furthermore IGUA believed that as demand grows for the residential, commercial and power generation markets, without incremental gas supplies, the market demand can only be met through a reduction of the supply to the industrial sector, which would be highly detrimental to the best interests and competitiveness of IGUA members.

Enbridge

Enbridge indicated it would be appropriate for the Board to approve Gros Cacouna as a receipt point on the Integrated System, however, only on the basis that approval of the Gros Cacouna receipt point would not, in and of itself, mandate the existing rolled-in toll methodology for service from Gros Cacouna.

Enbridge suggested that the overall delivered cost of gas should be considered in addition to the three factors used by TransCanada in its assessment of the total transportation cost impact used to evaluate a new receipt point. Enbridge indicated that the potential impact of the proposed new supply at Gros Cacouna receipt point, using the existing rolled-in toll methodology, could have significant adverse impact on the total delivered cost of gas to Enbridge, notwithstanding that there may be other non-monetary benefits such as security of supply.

Petro-Canada

Petro-Canada fully supported TransCanada's request to establish Gros Cacouna as a receipt point that would serve as part of TransCanada's Integrated System. The Gros Cacouna facility would offer an attractive alternative entry location into North America for LNG suppliers away from the traditional markets in Asia and Europe.

Although it is not typical for a potential shipper on the TransCanada system to ask TransCanada to obtain regulatory approvals for a new receipt point and the associated facilities three or four years before the receipt point will be in use, given the nature of LNG projects and their long lead times, Petro-Canada indicated this was the necessary sequence and timing.

Petro-Canada stated that the PA demonstrates the level of confidence that the sponsors of the proposed LNG regasification facility have in their project. Furthermore, the PA indemnifies TransCanada for costs incurred in the development of the Gros Cacouna extension if the project does not proceed. Petro-Canada believed the PA is important, given the long lead time of the LNG project and because it established that there is no risk to shippers arising from TransCanada's commencement of work on the pipeline as soon as the Decision in this proceeding is issued. Petro-Canada indicated that the PA also authorized TransCanada immediately to commence acquiring materials, entering contracts and taking such steps as it considers appropriate to provide timely service.

Petro-Canada also committed to a 20-year term for FT service from Gros Cacouna, twice the minimum required for construction of other facilities on TransCanada. Petro-Canada contended that this represents their confidence in the Gros Cacouna LNG terminal project and their long term commitment to the TransCanada Integrated System.

Rabaska

Rabaska is the proponent of an LNG terminal on the south shore of the St. Lawrence River, in Lévis, Quebec. Connecting the Rabaska terminal with the existing terminus of the TQM system at St. Nicolas, Quebec would require the construction of a 42-km pipeline.

Rabaska indicated that it is not opposed to adding Gros Cacouna as a receipt point, given the understanding that adding the receipt point would not be determinative of the tolling treatment of new facilities from that location.

Rabaska's concern in this application was with regard to the tolling methodology that is to be applied to services from the Gros Cacouna receipt point. Rabaska did not oppose adding Gros Cacouna as a receipt point, but only on the basis that the toll on the Gros Cacouna extension would be a stand-alone toll. Rabaska's position and evidence stated that St. Nicolas should be designated as the point for receipt for Quebec LNG into TransCanada and that the toll on the pipeline from Gros Cacouna to St. Nicolas should be determined on a stand-alone basis. In that case, the effect on cost would be the same whether St. Nicolas or Gros Cacouna was established as the TransCanada receipt point.

Rabaska questioned the necessity of the TransCanada requirement for an executed PA in TransCanada's evaluation of requests for a new receipt point. However, Rabaska did not dispute that this requirement was applied fairly to all requests.

Gaz Métro

Gaz Métro stated that it endorsed the creation of new receipt points at the eastern end of the TransCanada system and therefore recommended that the Board approve TransCanada's application to create a new receipt point at Gros Cacouna. The Board's approval would send a strong positive message to LNG suppliers without inconveniencing users of the system. In response to ADOE, which had pointed out that the receipt point would be on the TQM system, Gaz Métro explained that this situation was in no way a precedent, since East Hereford is already recognized as a receipt point in the TransCanada tariff.

Gaz Métro also stated that the new receipt point would facilitate the introduction of a second supply source. Since the traditional supply source of TransCanada's Integrated System has begun to decline, the addition would enable Gaz Métro to diversify its supply sources. It maintained that a second supply source would contribute considerably to increasing the security and diversification of its customers' supply and to introducing healthy competition in gas prices.

Union

Union indicated that its interest in this application was to ensure that access to the new sources of LNG would be available on reasonable terms and conditions, including cost. Union stated that it supports initiatives that help to diversify and secure competitively priced gas supply.

Union stated that it is prepared to support the application based on the assumptions presented in evidence in this application. However, should the facts differ materially from the assumptions presented in the application, Union believed that existing TransCanada shippers should not be required to bear the adverse consequences of those changes.

The assumptions employed in the present application anticipated minor toll impacts to existing shippers and an in-service date of 2010 for the Cacouna LNG project. Union stated that a delay in that date would almost certainly require the situation to be revisited as the facts and circumstances are likely to change in that timeframe. Similarly, Union indicated that its support for the present application should not be viewed as a precedent for future applications involving materially different circumstances on the system. These materially different circumstances might include increased toll impacts to existing shippers, or changes in the integrated utilization of the TransCanada and TQM systems should the subsequent application result in a complete displacement of western-sourced gas from the TQM system.

Mr. Hervieux

Mr. Hervieux was of the view that the Board should not approve Gros Cacouna as a new receipt point due to the lack of relevant information on the record. He stated that because it had not been demonstrated that Canada was facing a natural gas supply shortfall and because TransCanada could serve the northeastern United States in some other way, it would not be necessary to establish a receipt point at Gros Cacouna.

ADOE

ADOE opposed TransCanada's application for approval of Gros Cacouna as a receipt point because the Gros Cacouna receipt point is not on the TransCanada system, but on TQM, which is a separate entity with its own tariff. ADOE indicated that the revenues from Petro-Canada's FT commitments would be substantially less than the costs of providing the new service, and inclusion of these costs into TransCanada's revenue requirement would be an unjustified subsidy.

Quebec

Given that the application to add a new receipt point at Gros Cacouna seems to meet all requirements of the Procedure, Quebec believed that TransCanada should receive the Board's approval to add Gros Cacouna as a new receipt point.

Views of the Board

The Board finds that TransCanada's evaluation of the request for a new receipt point at Gros Cacouna is in accordance with the requirements of its tariff Procedure for Adding Receipt and Delivery Points, and is satisfied that TransCanada has provided sufficient evidence to demonstrate that it has fully considered the relevant factors in its Procedure. The Board believes that TransCanada's treatment of all requests for new receipt points was fair and equitable and notes that this was not contested in this proceeding.

The Board recognizes the merit in TransCanada's requirement for a PA to indemnify TransCanada for the costs that it would incur in advancing the Gros Cacouna receipt point and pipeline extension. Given the long lead time and uncertainty associated with proposed LNG projects, the Board agrees that the PA requirement is prudent and would also help to protect existing shippers from risk and expense.

The Board notes that only ADOE and Mr. Hervieux opposed the approval of Gros Cacouna as a new receipt point, for different reasons. ADOE was opposed to the receipt point based primarily on its opposition to the toll methodology that would apply to service from that point. As for Mr. Hervieux's reasons, those were essentially directed at questioning the need or justification for a new pipeline between Gros Cacouna and St. Nicolas. In the Board's view, the need for a future pipeline is not a determination that the Board is asked to make or can make in this proceeding. Such a determination would more properly fall in a proceeding under Part III of the Act where the Board would then have to determine the present and future public convenience and necessity of a proposed pipeline.

The Board notes that although Enbridge did not oppose the approval of Gros Cacouna as a new receipt point, Enbridge did express concern about the potential economic impact to existing shippers, including the expected effects of the construction and operation of the Gros Cacouna receipt point facilities on the future commodity prices and the resulting changes to the total transportation costs on the TransCanada system. However, the Board's consideration of toll impacts in adding a new receipt point is primarily to ensure that the resulting tolls are just and reasonable, and that they not be unjustly discriminatory. Although favourable toll impacts and lowest possible tolls to all shippers are desirable, these are not always

possible when all relevant factors are taken into consideration. In that respect, the Board is satisfied that sufficient evidence has been presented by the Applicant and various intervenors to indicate the benefits from a new source of LNG supply that may be provided by the Gros Cacouna receipt point and associated facilities on TQM and TransCanada. These benefits may include enhanced service reliability, operational flexibility, and greater supply certainty to eastern users of the TransCanada system. Moreover, the Board is not persuaded that future commodity prices can be predicted with enough certainty to be of probative value.

TransCanada also sought affirmation that prudently incurred costs required to provide service from Gros Cacouna would be included in the determination of the Mainline revenue requirement. The Board notes that no party was opposed to this request given the understanding that any prudency determination is a retrospective exercise and can only be done in a future application. The Board finds that it follows from the approval of Gros Cacouna as a receipt point that prudently incurred costs required to provide service from Gros Cacouna (which would be determined in a future application) may be included in TransCanada's Mainline Revenue requirement.

Decision

The Board approves the addition of Gros Cacouna as a new receipt point on the TransCanada Integrated System. This approval will become effective when the facilities required to connect the Gros Cacouna receipt point to TransCanada's Integrated System are approved and placed in service. The Board further affirms that prudently incurred costs required to provide service from Gros Cacouna, as determined in a future application, may be included in the determination of TransCanada's Mainline revenue requirement.

Chapter 3

Toll Methodology

3.1 Toll Making Principles and Key Considerations

In this proceeding, parties made reference to various tolling principles and key considerations which have guided the Board's decisions in past hearings. The Board finds it beneficial to review those guiding principles and considerations in this section as they provide an effective framework for deciding on the issues before the Board in this application.

Requirements of the Act

The Board's mandate in respect of traffic, tolls and tariff matters is found in Part IV of the Act. The Board must abide by certain fundamental standards of toll-making that are specified in sections 62 and 67 of the Act: All tolls must be just and reasonable, and shall always, under substantially similar circumstances and conditions with respect to all traffic of the same description carried over the same route, be charged equally to all persons at the same rate, and no toll shall result in unjust discrimination. However, the Board has wide discretion in choosing the method to be used by it and the factors to be considered by it in assessing the justness and reasonableness of tolls. This discretion has been confirmed by various decisions of the Federal Court of Appeal.[2]

The statutory requirement that there be no unjust discrimination in tolls is often referred to as a key tolling principle. In the RH-4-86 Decision[3], the Board stated that the Board can set different tolls for traffic of different descriptions, for traffic of similar description but which is carried over different routes, as well as for traffic which flows under substantially different circumstances, all without offending the prohibition against unjust discrimination. Whether or not any such criteria exist in a given case is a matter of judgment for the Board to decide based on the evidence before it.

Cost Based and User Pay

A principle referred to in many Board decisions is that tolls should be, to the greatest extent possible, cost based and that the users of a pipeline system should bear the financial responsibility for the costs caused by the transportation of their product through the pipeline. This is often referred to as the cost-based/user-pay principle, which the Board views as a single toll-making principle. At other times, this principle is referred to as the cost causation principle.

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2 See *British Columbia Hydro and Power Authority* v. *Westcoast Transmission Company Limited*, [1981] 2 F.C. 146, 36 N.R. 33 (F.C.A.); *Trans Mountain Pipeline Company Ltd.* v. *National Energy Board*, [1979] 2 F.C. 118, 29 N.R. 44 (F.C.A.); and *TransCanada PipeLines Limited* v. *National Energy Board et al.*, [2004] F.C.R. 149 (QL) paragraphs 29 to 31.

3 RH-4-86 Reasons for Decision dated June 1987, Chapter 8, page 33.

One example where the Board relied on this principle was in the GH-2-87 Decision[4] dealing with the provision of additional delivery pressure. In that decision, the Board stated that, "However, in accordance with the principles of cost causation and 'user pay', the shippers using and benefiting from this service should be required to bear the incremental costs in order to ensure that undue cross-subsidization by other tollpayers does not occur."

As to who causes the need for new pipeline facilities, the Board stated in the GH-5-89 Decision[5] that it was persuaded by the argument that it is the aggregate demand of all shippers that gives rise to the need for additional pipeline capacity.

No Acquired Rights

In the GH-2-87 and GH-5-89 Decisions[6], the Board expressed the view that the payment of tolls in the past conferred no benefit on tollpayers beyond the provision of services at that time. In other words, previous tollpayers have no acquired rights. The Board stated that it does not equate those who paid for a service with those who paid for the facilities. Accordingly, the Board rejected the notion that shippers who have used the pipeline in the past are somehow entitled to continue using the existing facilities without being affected by new circumstances. They cannot be exempted from a toll increase simply because they paid tolls in the past.

Economic Efficiency

The concept of economic efficiency has been a part of the Board's strategic goals for many years. In the context of regulated tolls, economic efficiency generally means that tolls should promote proper price signals in order to maximize the utilization of the pipeline system and thus lower costs.

In RH-2-91[7], the Board stated that tolls should ideally be set to encourage economic efficiency. However, this could require that tolls be set to reflect the value of service, rather than reflecting the actual costs of providing service. Thus, at times there may be a conflict between adherence to the principle of cost-based/user-pay tolls and promotion of economic efficiency. In such instances, the Board expressed the view that there would have to be strong reasons for departing from the principle of cost-based/user-pay tolls in order to set tolls which would encourage economic efficiency.

Degree of Integration and Nature of Service

While not principles, the Board, in past hearings, has treated the following two factors as key considerations when deciding whether rolled-in or stand-alone tolls would best adhere to the principle of cost-based/user-pay tolls. Those factors are: (1) the degree to which the proposed facilities would be integrated with the rest of the pipeline system; and (2) the nature of the service to be provided by the proposed facilities in relation to the service provided by the rest of the pipeline system.

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4 GH-2-87 Reasons for Decision dated July 1988, Chapter 8, page 78.

5 GH-5-89 Reasons for Decision, Volume 1, dated November 1990, Chapter 2, page 13.

6 GH-2-87 Reasons for Decision, Chapter 8, page 70 and GH-5-89 Reasons for Decision, Volume 1, Chapter 2, page 12.

7 RH-2-91 Reasons for Decision dated June 1992, Chapter 10, page 68.

In GH-2-87[8], the Board stated that, to the extent that the new facilities form part of the integrated TransCanada system, it agreed with those parties who submitted that section 52 [now section 62] of the Act precludes the adoption of an incremental toll methodology. However, the Board also stated that a finding, in the circumstances of that particular case, that the integrated nature of the TransCanada system precludes the adoption of other than a rolled-in methodology does not necessarily mean that all new facility additions must be treated in a similar fashion. When identifiable facilities which do not increase the throughput capacity on the integrated system are installed to provide a custom service to a specific user or group of users, then such discrete facilities might not form part of the integrated system. In such cases, a separate toll, calculated on either a rolled-in or incremental basis, could be established for service on those facilities. For instance, in GH-2-87[9], the Board found the provision of additional delivery pressure at certain export points to be a separate and distinct transportation service (i.e., a custom service) and decided that a separate and incremental tolling approach was necessary.

In the GH-R-1-92 Blackhorse Extension proceeding[10], the Board stated the following: "In the Board's view, the costs of any portion of an integrated pipeline system, which is jointly used by many shippers and which provides a standard service, should be shared by all system users through rolled-in tolls. Rolled-in tolls reflect the facts that all shippers cause costs on the system and that all shippers also share the benefits of the integrated system. In such instances, rolled-in tolls send the correct market signals to shippers with respect to the cost of providing the service."

In the GHW-5-90 and RH-3-90 proceeding[11], the Board noted that there is an important distinction to be made between facilities which are dedicated to one shipper or one commodity group and facilities which serve, or which can reasonably be expected to serve many shippers or commodity groups. In that proceeding, the Board ruled in favour of stand-alone tolling on the basis that the proposed natural gas liquids facilities would be used by a single commodity group.

Other Considerations

Other toll methodology considerations raised by parties in past Board hearings are practicality, toll stability and administrative simplicity. While the Board found these to be useful considerations, it did not find them to be the primary ones in arriving at just and reasonable tolls.

3.2 Position of TransCanada

TransCanada requested affirmation that the prevailing rolled-in toll methodology would be applicable to the determination of tolls for services provided at Gros Cacouna. To support its application, TransCanada submitted that the Gros Cacouna extension would be part of the Integrated System, that its gas supplies would be commingled, and that the additional TQM TBO service would be used in conjunction with all of its existing Mainline and TBO service, including the GLGT, Union and TQM capacity, in order to provide the cross-system services that shippers

8 GH-2-87 Reasons for Decision, Chapter 8, page 73.

9 GH-2-87 Reasons for Decision, Chapter 8, page 78.

10 GH-R-1-92 Reasons for Decision dated June 1992, Chapter 11, page 67.

11 GHW-5-90 and RH-3-90 Reasons for Decision dated February 1991, Chapter 10, page 38.

have requested from TransCanada. TransCanada also submitted that the rolled-in methodology is the most appropriate approach for its Integrated System.

TransCanada and its expert witness, Mr. Reed, filed evidence intended to demonstrate that there would be physical and operational integration between the existing and new facilities and that the nature of the service between the existing and new facilities would be consistent.

Physical Integration

In terms of physical integration, TransCanada submitted that the Integrated System is a network pipeline system where natural gas enters and exits the system through multiple receipt and delivery points throughout the system. Gas does not necessarily physically flow along its contractual path; the system is rather operated by TransCanada in its entirety to meet total system requirements on a least-costs basis.

In the context of this application, TransCanada submitted that the existing Integrated System and the additional Mainline facilities and TQM service related to new supply from the Gros Cacouna receipt point would be jointly used. Natural gas transported from this receipt point could not reach domestic and export markets without using the Integrated System. It would be physically impossible to provide the requested service without use of the existing Integrated System, meaning that the additional TQM service and additional Mainline facilities could not provide the requested service in and of themselves.

TransCanada was of the view that it would not be able to physically separate and direct the flow of its existing TQM TBO volumes from its new TQM TBO volumes, or from any other volumes for that matter.

The additional capacity required by TQM to meet the request for additional service by TransCanada would be designed as part of the Integrated System. In the placement of looping and compression and in the design from a loss of critical unit perspective, the Mainline and TQM system would be considered parts of an integrated system. TransCanada also mentioned that the additional Mainline facilities and TQM service would facilitate additional diversions on the Integrated System, thereby enhancing the service flexibility of existing firm shippers' service entitlements and providing increased opportunity for sale of discretionary services.

Operational Integration

TransCanada stated that the Mainline and the TQM systems are designed and operated on an integrated basis. The Integrated System is scheduled and dispatched as a single system, and would continue to be operated this way with the addition of the new supply. For example, the current design of the system requires that gas transportation on the Mainline, GLGT, Union and TQM be coordinated. Also, the total amounts of nominated receipts and deliveries on the Integrated System are balanced as a whole each gas day, allowing for optimization of the entire Integrated System and resulting in efficiencies such as fuel cost savings.

Furthermore, TransCanada submitted that it is the service provider for the operations control function for TQM (maintenance, scheduling, engineering and technical support). Nominations to delivery points on the TQM system impact Mainline operations due to Mainline compression

facilities at Les Cèdres which are required for transport on the TQM system. With the introduction of the new supply, TransCanada was of the view that the system would likely require compression on an intermittent basis as gas would alternate between flowing west to east and east to west on the TQM system, causing a greater need for coordination between the two systems.

TransCanada believed that it is clear that the TQM system is operationally integrated with the rest of the Integrated System.

Service Integration

TransCanada submitted that service integration stems from the physical and operational integration of the pipeline system, and the fact that the service to be provided would be subject to the same terms and conditions set forth in the tariff as existing service. Since Petro-Canada asked TransCanada for Mainline FT service from the Gros Cacouna receipt point, TransCanada submitted that the additional Mainline facilities and TQM service required for the new supply from Gros Cacouna would be used to provide standard service such as FT and IT as offered on the rest of the Integrated System. The service to be provided from the Gros Cacouna receipt point would be of the same nature and of the same quality as service from existing receipt points. Furthermore, the majority (71%) of the requested service from the Gros Cacouna receipt point is to delivery points on the Mainline facilities.[12] The end result is that service for this receipt point would be integrated with existing contracted transport from Empress/Saskatchewan and/or Dawn in a single shipper's service portfolio. There would be no service differentiation or customization, making it impossible to differentiate the existing customers from the new customers in terms of service type and quality.

The introduction of the new supply would likely enhance the existing service portfolio approach employed by shippers. Shippers would have the opportunity to add transportation service from the Gros Cacouna receipt point to their existing portfolio of contracted Mainline transportation. TransCanada further submitted that this re-contracting should create additional capacity from western Canada along the Integrated System that could serve, at no additional cost, either existing unserved demand or future incremental demand.

To further illustrate integration, TransCanada submitted a study conducted by Firme NORAM Experts-Conseil Inc. (NORAM Study) showing that natural gas demand may develop along the Gros Cacouna extension. In TransCanada's view, the facilities required to serve the Gros Cacouna receipt point cannot be considered single-use since they are expected to serve many parts of the eastern market including new markets between St. Nicolas and Gros Cacouna.

Impact of Integration on Toll Design

TransCanada concluded that transportation from the receipt point should be tolled on a rolled-in basis, primarily because the additional Mainline facilities and TQM service would be fully

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12 The delivery points on the Mainline, as contemplated by the PA between TransCanada and Petro-Canada, are the Enbridge EDA (40,000 GJ/d), Union EDA (45,000 GJ/d), Union CDA (100,000 GJ/d), Union SWDA (60,000 GJ/d) and Iroquois (130,000 GJ/d). The remaining 29% are on the TQM system in the GMi EDA (130,000 GJ/d) and East Hereford (20,000 GJ/d).

integrated with the existing Integrated System. More specifically, TransCanada was of the view that given the physical, operational and service integration, the costs incurred in order to provide the service requested could be considered to have been caused by the aggregate of all demands on the Integrated System, and thus the existing toll methodology would be consistent with the "user pay" principle. In such circumstances, a single cost pool for the existing and new TQM TBO costs best reflects cost causation. As a result, in TransCanada's view, the rolled-in toll methodology would generate tolls that would be cost-based.

To support its position, TransCanada submitted that the new supply is necessary in order to meet the increasing demand of the Integrated System. LNG projects are one of the market's responses to this supply shortfall. More specifically, flattening North American supplies coupled with the increasing demand of all shippers on the Integrated System have created the need for the new supply, and the concomitant costs, on the Integrated System.

TransCanada was of the view that if the costs associated with accessing a third source of supply (beyond WCSB and Dawn) would be rolled-in to the existing costs, then the tolling treatment of all three sources of supply would be consistent and not unduly discriminatory. Furthermore, since the existing Integrated System and the additional Mainline facilities and TQM service related to the new supply would be fully integrated, a tolling arrangement that would result in hauls from the receipt point being tolled in the same manner as existing short hauls in the eastern market area would not be unjustly discriminatory.

In TransCanada's view, even if minimizing the costs associated with a supply line would be a desirable objective, TransCanada submitted that this was not the Board's mandate. TransCanada underlined that the Board should decide what would be best for the Integrated System and for all of its users. Accordingly, the Board's decision should be in accordance with the statutory requirement which is that tolls should be just and reasonable. TransCanada further indicated that its proposal to roll-in the costs associated with meeting the service request with TransCanada's existing costs and then designing tolls on the entirety of the combined cost structure is consistent with the principle that shippers do not have proprietary rights to capacity or tolls.

With regards to the Federal Energy Regulatory Commission's (FERC) precedents related to the tolling of pipeline extensions to connect LNG terminals, TransCanada submitted that the Board should not give precedence to vague FERC references but if the Board is to be aware of those precedents, it should know that Trunkline LNG and Trunkline Gas are cases where the FERC has ordered that the cost of such extensions be rolled-in to the transmission systems to which they are connected.

Alternatives assessed by TransCanada

TransCanada stated that in order to ensure that no better alternatives existed that would produce just and reasonable toll outcomes, ensure long-run competitiveness and ensure fairness amongst existing and new shippers transporting gas from the new supply source, it assessed four alternative toll methodologies.

TransCanada calculated the total transportation costs of each alternative as shown in Table 2-1 of these Reasons. TransCanada also assessed the four alternatives based on their qualitative merits

and against tolling principles. TransCanada's conclusion was that none of the alternatives was appropriate primarily in light of the integrated nature of the system. TransCanada submitted that each of the alternative toll methodologies involved separating the Integrated System for tolling purposes and this separation was not consistent with the operational reality of the system. As outlined previously, TransCanada argued that the Integrated System is not operated as separate components and that the additional Mainline facilities and TQM service would form part of the Integrated System.

TransCanada was also of the view that Alternatives 1, 2 and 4 were unjustly discriminatory since they would cause transportation from the Gros Cacouna receipt point to be tolled differently than transportation from other receipt points in the eastern market area solely because the gas would be deemed to travel across different systems resulting in a stacked tolling treatment. TransCanada submitted that this would be unjustly discriminatory since shippers utilizing short haul service from existing receipt points would have a competitive advantage relative to shippers transporting gas from Gros Cacouna for no other reason than different tolling methodologies.

Finally, TransCanada argued that any alternative involving two cost pools would not be appropriate since the only real difference between the cost pools would be inflation and depreciation. TransCanada noted that the Board has previously ruled in the GH-5-89 Decision that such types of time-based differences do not justify a new tolling approach

3.3 Position of Parties

Petro-Canada

Petro-Canada was of the view that the prevailing toll methodology applicable to transportation services on TransCanada's Integrated System is appropriate for transportation services provided from the Gros Cacouna receipt point. Petro-Canada supported the evidence of Mr. Reed relating to toll methodology and believed that the proposed methodology would be consistent with sound economic tolling principles. It was Petro-Canada's position that rolled-in costs and TransCanada's distance-based toll design would treat different LNG projects fairly and equitably.

According to Petro-Canada, the Gros Cacouna Extension is intended to provide increased system efficiency, operation flexibility and reliability for the Integrated System, thereby benefiting all system users. These facilities would become an integral part of the Integrated System providing another access point for gas receipts and also the opportunity for new delivery points between St. Nicolas and Gros Cacouna. Petro-Canada believed that the Gros Cacouna extension would be used by multiple customers since Petro-Canada has chosen to market this gas through a portfolio of customers, some of which could provide natural gas to local communities along the proposed route. Petro-Canada was also of the view that other parties are likely to obtain throughput capacity from the Cacouna LNG terminal. It noted that the draft shipper agreements for the Cacouna LNG terminal (which are confidential) would provide Petro-Canada with the opportunity to assign a partial entitlement to another qualified shipper. Depending on the nature of the assignment to the third party at the Cacouna LNG terminal, Petro-Canada could seek to assign an equal amount of firm transportation entitlement on the Mainline. Petro-Canada underlined the interest of Woodside Energy Ltd., as demonstrated by a letter from this Australian

LNG producer, in using the Cacouna LNG terminal as well as downstream pipelines to access the Canadian and US north-east markets. Petro-Canada further noted Gazprom's similar objectives which would be to participate in all elements of the LNG value chain, including supply, markets and downstream transportation.

Petro-Canada was of the view that if the Board were to decide that users of transportation services from Gros Cacouna must pay an incremental toll, this decision would have a significant adverse economic impact on the Cacouna LNG project. However, Petro-Canada was not prepared to indicate whether the Cacouna LNG project would be economic or not if an incremental toll methodology was approved. Petro-Canada further stated that it considered the economic feasibility of the Cacouna LNG project to be irrelevant to the toll methodology issue before the Board. Petro-Canada underlined the importance of obtaining certainty related to the tolls on the Gros Cacouna extension so that potential shippers and suppliers would have one less uncertain factor to take into account when deciding whether to commit to the Cacouna Energy Project.

Union

Union indicated that it is interested in ensuring access to the new sources of LNG which are under development to the east of the existing TransCanada system. However, this interest was not unconditional. Union stressed the point that these new supply sources should be available on reasonable terms and conditions, including cost.

Union supported the approval of TransCanada's application. It submitted that even though it had some reservations with regard to the assumptions used by TransCanada in its analysis, it was prepared to accept that the forecasted toll impacts would be minor and that the TQM system would continue to be integrated and flow west to east and east to west.

However, Union was of the view that should the facts and circumstances differ materially from the assumptions presented in the application, shippers should not be required to bear the adverse consequences of those changes. Increased toll impacts to existing shippers, or changes in the integrated utilization of the TransCanada and TQM systems should the subsequent facilities application result in a complete displacement of western-sourced gas from the TQM system, were submitted by Union as examples of materially different circumstances.

Union finally submitted that the decision made by the Board regarding these very specific circumstances on the record of this proceeding should not be used as a precedent for very different situations that might occur in the future.

Gaz Métro

Gaz Métro did not believe that a change in toll methodology in this instance would be justified because the existing methodology has been tested and has served all of its customers well for many years and because the impacts of such a methodology would be negligible. Gaz Métro was of the view that the application of the toll design methodology currently in place on TransCanada's Integrated System would benefit all system users, which obviously include Gaz Métro–the natural gas distributor for the province of Quebec–and its customers. Furthermore, from an economic and operational perspective, the application of the existing toll methodology

would be the most efficient solution to ensure that the benefits of a new supply source would be accessible in equal measure to the greatest number of users of the Integrated System.

Gaz Métro was of the opinion that the new facilities would be an integral part of TransCanada's Integrated System and that any person who wished to use the facilities would necessarily have to use other segments of the Integrated System to deliver natural gas to customers. The services offered on the new segment would be identical to those currently offered on the rest of the Integrated System. Because the new facilities will be added to the TQM system, Gaz Métro also made the following points in support of its position in favour of the integration of the TransCanada and TQM system. First, the TQM system has always been considered an integral part of the TransCanada system for tolling purposes. The territory served by the TQM system was included in TransCanada's Eastern Zone, and all delivery points on the system are described as delivery points in the TransCanada tariff. Furthermore, all shippers who wanted to transport gas from the TransCanada system to these delivery points, including Gaz Métro, contracted directly with TransCanada for these services. In addition, the compression required to transport gas on the TQM system was provided exclusively by TransCanada until 1998, and this remains largely the case today. Finally, TransCanada ensures control over gas flows on the TQM system, and for tolling purposes, the cost of adding facilities to the system was integrated into TransCanada's cost of service. The integration of TQM also includes operations control, maintenance, scheduling, technical support, engineering and most of the administrative services that have been wholly the responsibility of TransCanada since 1 January 2003.

Gaz Métro was of the view that the integration of the new facilities required to connect Gros Cacouna to TransCanada's Integrated System would also be the most efficient solution from an operational perspective. Gaz Métro stated that adding a new supply source at the eastern end of the Integrated System would enable it to meet its delivery requirements more easily in the event of a facility failure or a temporary disruption in western-sourced supply, which would increase the physical security of supply for all of its users. Furthermore, the operational efficiency offered by an integrated system could also be measured by the resulting contract flexibility. Such flexibility would enable shippers to optimize their contracts, thus reducing their financial risk. Finally, in terms of balancing the daily quantities delivered in its territory against its customers' consumption, Gaz Métro is currently able to adjust the total quantity of gas drawn from all interconnection points by using load balancing tools located in its franchise and by regulating the pressure on certain segments of its system. Gaz Métro stated that an integrated system would enable it to respond to an additional demand from one segment by using the load balancing tool located on another. Gaz Métro added that it would be impossible for it to balance a zone that was separate from the GMi EDA zone–in this case, the Gros Cacouna extension if it were separate from the existing system–by using existing load balancing tools within its franchise, such as the services contracted for with Union, Intragaz, and its own LNG storage facilities on the Island of Montreal.

Gaz Métro stated that if it is possible to use the Integrated System as it is done today, there is no valid reason, in its opinion, to toll the system otherwise, adding that it would be a matter of principle. Furthermore, if the existing toll methodology were retained, tolling would eventually become more stable, which would facilitate planning for everyone.

Gaz Métro pointed out that none of the parties had demonstrated that the introduction of a new supply source on the eastern end of TransCanada's Integrated System represented a sufficiently significant change in circumstances to justify a revision of the existing methodology. Gaz Métro was of the view that reversing the direction of gas flows did not in and of itself constitute a valid reason for a change in methodology. In addition, it stated that there is nothing in the Act that would allow it to adopt a different tariff treatment based on the fact that the purpose of creating the new segment would be to add a new supply source, rather than new markets. Gaz Métro was of the view that it was not the role of the Board to implement a toll methodology that was aimed at promoting or penalizing the Gros Cacouna LNG terminal project in favour of the Rabaska project or vice versa.

In response to the intervenors opposed to TransCanada's proposal, Gaz Métro stated that approving stand-alone tolls for transportation services from Gros Cacouna would constitute a precedent, since no other segment of the Integrated System is tolled in this manner. The proposal would assign to one segment of TransCanada's Integrated System a different tariff treatment than that of the other segments, which would be discriminatory. In addition, Gaz Métro was of the opinion that TransCanada's proposal to add a receipt point at Gros Cacouna on the TQM system did not constitute a precedent, since East Hereford is already recognized as a receipt point in TransCanada's tariff.

IGUA

IGUA was of the view that TransCanada's proposed rolled-in methodology based on its Integrated System's average unit costs is the toll methodology that would produce the most just and reasonable rates under the present circumstances. However, IGUA stressed the point that its support of the proposed rolled-in methodology in this particular case should not be interpreted as meaning that IGUA is of the opinion that the rolled-in methodology should be applied in all circumstances. Also, IGUA indicated that its support should not be interpreted as meaning that it would necessarily accept as prudently incurred all costs to be incurred by TransCanada and TQM for the construction of the pipeline linking the Gros Cacouna receipt point to TQM's existing system.

IGUA accepted the evidence submitted by TransCanada to the effect that the new facilities would be fully integrated with TransCanada's system both from a physical and operational stand point. IGUA was of the view that the new facilities would serve multiple customers, likely including IGUA members, located in the GMi EDA as well as in Ontario. As a result, the Gros Cacouna extension would not be a single-use facility for the sole interest of Petro-Canada or of the shippers who will use these facilities. Also, the Gros Cacouna extension would essentially constitute a new supply source over and above those currently used on TransCanada's Integrated System. IGUA was of the opinion that the nature of the services to be offered on the Gros Cacouna extension is no different than those currently offered on TransCanada's Integrated System. IGUA saw no justification to discriminate against the users who would use the new facilities. In such circumstances, IGUA noted that the distance-based rolled-in toll methodology proposed by TransCanada accounts for differences in distances covered to provide the service. IGUA believed that this fact should fully respond to Rabaska's argument to the effect that TransCanada's proposal would introduce an unfair competitive advantage to the Cacouna LNG terminal project to the detriment of its own LNG terminal project in Lévis.

IGUA submitted that the alternatives proposed by the opponents to TransCanada's application would result in higher tolls for services from Gros Cacouna than for services covering the same distance from other points on TransCanada's Integrated System. In IGUA's view, this would introduce undue discrimination in tolls within TransCanada's Eastern Zone as well as within the GMi EDA for no valid reason. In response to the intervenors who argued that the Board's RH-2-91 Decision to toll IPL Line 9 on a stand-alone basis was applicable to this case, IGUA noted that this decision was based on very different and unique circumstances that are not present in this case. Furthermore, in IGUA's view, the discussion as to whether the Gros Cacouna extension would be a supply lateral as opposed to a delivery lateral is not a relevant consideration. The relevant criteria to be considered in regards to the appropriate toll treatment should be the same for all TransCanada facilities, regardless of their geographic location and regardless of whether they provide benefits by allowing producers to access new markets or by allowing consumers access to new supply. IGUA argued that to do otherwise would inevitably introduce undue discrimination.

IGUA stated that it understood the financial and business motivations that may make some parties concerned with the introduction of new offshore-based gas supply into Eastern Canada. However, IGUA was of the view that this does not justify a move away from traditional tolling principles that are fair and equitable and fully justifiable under the present circumstances. IGUA suggested that if certain positions lead to compromise the economics of the LNG terminal projects, these positions could be very detrimental to competition.

Quebec

Quebec wholeheartedly supported TransCanada's proposal to apply the toll design methodology currently in place on TransCanada's Integrated System. It was of the opinion that the confirmation of a toll methodology aimed at establishing a competitive rate for the transportation of natural gas from an LNG terminal project to its target market is a major factor for all LNG suppliers deciding whether or not to contract with an LNG terminal, in this case a terminal located in Quebec. The choice of toll methodology therefore has a significant impact on the likelihood that an LNG terminal project will be carried out.

In this context, Quebec was of the view that the toll methodology proposed by TransCanada would best serve the proposed new receipt point at Gros Cacouna and would adhere most closely to the fundamental concept of just and reasonable tolls. This method would be in accordance with the toll methodology that has long been in place on the TransCanada-TQM Integrated System. In addition, the predictability of the toll methodology applicable to TransCanada's Mainline is a crucial element for investors.

Rabaska

Rabaska agreed with TransCanada's proposal regarding the tolling of the Integrated System from Empress to St. Nicolas. In Rabaska's view, the costs associated with the expansion of the existing TQM and TransCanada systems to accommodate the combination of existing and new flows on those systems should be rolled into TransCanada's revenue requirement and tolled using TransCanada existing toll methodology.

With regards to the determination of who should bear the cost of pipeline facilities required to connect Quebec LNG terminals to the existing TQM system, Rabaska disagreed with TransCanada's proposal based on relevant tolling principles and for ensuring fair competition among the Quebec LNG terminals. Rabaska submitted that a stand-alone toll methodology should be applied to the Gros Cacouna extension. Rabaska used the terminology "LNG Supply Line" to define the pipeline segment - the Gros Cacouna extension - from the Cacouna LNG terminal to the existing TQM system terminus at St. Nicolas.

Tolling Principles

Mr. Drazen, Rabaska's toll expert witness, agreed with the economic-related principles put forward by Mr. Reed, TransCanada's toll expert witness. Those principles are that cost responsibility should follow cost causation, tolls should not be unduly discriminatory and tolls should promote economic efficiency. According to Rabaska, the principle that "cost responsibility should follow cost causation" underlies the other two principles. Tolls are considered discriminatory when toll differences do not match cost differences. Economic efficiency deals with the incurrence of costs in the future as a result of consumer decisions which have yet to be made and such efficiency is promoted when different services are priced at their respective relative costs. Based on the above mentioned relevant tolling principles, Mr. Drazen was of the view that the "LNG Supply Line" should be tolled on a stand-alone basis. Rabaska agreed with this conclusion.

With regards to the relevance of integration, Mr. Drazen was of the view that the TransCanada and the TQM systems are physically and operationally integrated. However, this fact should not mean that the costs should be rolled-in since integration does not necessarily dictate a particular toll treatment. Mr. Drazen submitted that instead of trying to determine if the Mainline and existing TQM systems should be considered integrated, the important question should be to determine whether the costs of the new "LNG Supply Line" should be averaged with the TransCanada Mainline costs or whether it should be tolled on a stand-alone basis.

Mr. Drazen used three specific examples to show that integration could mean many things and that it should not dictate the tolling treatment. First, the Mackenzie Valley Pipeline, if it were to be built, could be considered to be integrated with the NOVA Gas Transmission system (NOVA) since natural gas from the Mackenzie Delta would not be able to reach domestic or export market without transportation on the NOVA system. However, their respective costs are not proposed to be rolled into a single integrated toll. Another example submitted by Mr. Drazen was the NOVA laterals that could be considered as "integrated" with the NOVA Mainline but that integration did not lead to rolled-in tolling. Finally, if one was to use TransCanada's criteria of physical and operational integration, the NOVA system and the Portland Natural Gas Transmission System (PNGTS) in the United States could be considered to be "integrated" with the TransCanada Mainline but they are not. According to those examples, Mr. Drazen was of the view that the integration of the gas flow does not dictate the tolling treatment. Rabaska also submitted that an example where TransCanada itself did not consider integration to be a determining factor in the selection of a toll methodology was the project to transport Sable gas to domestic markets in Quebec and Ontario[13] and to export markets via the East Hereford export point.

13 GH-6-96 Reasons for Decision – Sable Offshore Energy Project and Maritime & Northeast Pipeline Project.

Rabaska was of the view that the case to be dealt with in this proceeding is an extension and not an expansion. Accordingly, one would need to look at which factors the Board has considered in the past when dealing with extensions and such cases would be Blackhorse (GH-R-1-92) and PNGTS (GH-1-97). In those two cases, Rabaska argued that the Board looked at two specific factors to decide which toll methodology would apply to the given extension. Those two factors were the degree to which the extension would be integrated with the rest of TransCanada's system, and second, the nature of the service to be provided by the proposed facilities in relation to the service provided by the rest of TransCanada's system.

Regarding the level of integration of the Gros Cacouna extension, Rabaska submitted that Petro-Canada is the only party that has requested services from the Gros Cacouna receipt point and that it is subscribing for all of the firm service to be available at Gros Cacouna. Rabaska suggested that those are the facts upon which the toll methodology decision should be based and those facts lead to show that there is insufficient integration to justify rolled-in tolling for the Gros Cacouna extension. Mr. Drazen stated that the arguments about the extent of "integration" should take second place to the issue of the dynamic effect of toll design. Under a rolled-in toll regime, Mr. Drazen was of the view that there would be a static effect in the near-term, in the form of a transfer of funds from TransCanada's toll payers to the LNG supplier, and in the longer term there would be a dynamic effect meaning even higher costs for TransCanada toll payers as additional supply extensions could seek the same rolled-in cost treatment. Mr. Drazen submitted that the more important question was that if the characteristics of both "LNG Supply Lines" are the same, should not the toll design encourage the choice of the more efficient alternative?

Rabaska stated that economic efficiency was not the subject of much discussion in the Blackhorse and PNGTS cases. The reason was that when one has no choice, the economic signals that tolls can convey do not have much impact. In Rabaska's view, it does not matter what the price is if one does not have a choice. Mr. Drazen submitted that in this case there is a choice. There is a competitive alternative to the Gros Cacouna extension, and that makes it important to have specific regard for economic efficiency in selecting the appropriate toll design. As a result, Mr. Drazen was of the view that the costs associated with an "LNG Supply Line" should be minimized.

Mr. Drazen submitted that the present case is different than the case before the Board in the GH-5-89 proceeding since the new "LNG Supply Line" facilities would not provide the same service that existing shippers receive on the existing facilities. The "LNG Supply Line" would haul gas in the opposite direction to historical flows and would serve only a single shipper. Furthermore, Mr. Drazen noted that having existing shippers give up their capacity on the TransCanada Mainline would not have any effect on the need for the new capacity from the "LNG Supply Line". Mr. Drazen was of the view that the situation before the Board in this proceeding is much closer to the situation before the Board in RH-2-91 which dealt with the IPL Line 9 reversal. Mr. Drazen stated that when Line 9 was reversed, the Board found that the difference in flow direction was a sufficient reason to toll Line 9 service on a stand-alone basis.

Rabaska was of the view that the Gros Cacouna extension would provide a different service than the existing Mainline facilities since the shippers would be different, the supply source would be different and the flow would be in a different direction. As a result, a different charge would not be discriminatory. According to Rabaska, the fact of the matter is that it is discriminatory to

charge the same toll for service on the "LNG Supply Line" as on the Mainline because it would be applying the same charge for services which have different costs.

Fair Competition

Rabaska submitted that the issues in this proceeding should be considered in light of the fact that there is a least one competing LNG terminal project, its proposed LNG terminal, namely Rabaska. Rabaska argued that TransCanada's proposal would result in an approximate $660 million transfer of costs from Petro-Canada to TransCanada's other shippers over the initial term of the Petro-Canada contract. This transfer of costs would reduce Petro-Canada's initial 5-year average transportation cost from Gros Cacouna to the market by $0.22/GJ. Rabaska was of the view that this would provide Cacouna Energy with an unfair competitive advantage relative to Rabaska. According to Rabaska, the rolling-in and averaging of the new "LNG Supply Line" with the existing TransCanada Mainline would reduce the price signal significantly. Accordingly, the "distance disadvantage" of Cacouna relative to Rabaska would then be substantially reduced.

Rabaska was of the view that in a non-competitive situation, it is to the advantage of a customer in the short-run to have as much of its costs as possible rolled-in to the system total cost and thereby spread over all customers. Rabaska submitted that in a competitive situation, it would be to the advantage of the most efficient (lowest cost) entity to have all competitors internalize their costs.

Alternative #1

According to Rabaska, if the Gros Cacouna receipt point were to be approved, the "LNG Supply Line" should be tolled on a stand-alone basis. Rabaska and Mr. Drazen considered Alternative #1 (described in Chapter 2) to be a more logical approach than TransCanada's proposal. Rabaska argued that Alternative #1 would be consistent with tolling principles and precedents and would result in just and reasonable tolls.

Rabaska stated that there is no good reason to depart from the norm of stand-alone tolling for the Gros Cacouna supply extension. Stand-alone tolling would encourage economically efficient decisions and would promote competition. It would treat Quebec LNG supply the same way as western Canadian supply, in terms of bearing the cost of moving gas to the Integrated System. Shippers on the NOVA system, the AEC Suffield pipeline, TransGas and the Vector pipeline are also paying a separate toll to make the connection with the TransCanada Mainline To support its position, Rabaska also attempted to demonstrate that new terminals regulated by the FERC that are competing with the Rabaska terminal are proposed to be tolled on a stand-alone basis.

Rabaska further submitted that its LNG terminal would be a much cheaper project from the standpoint of TransCanada, because Rabaska is not asking TransCanada (and thereby its shippers) to absorb the cost of the "LNG Supply Line". The difference in cost to TransCanada between the Cacouna Energy project (with roll-in of the "LNG Supply Line") and the Rabaska project (without roll-in) would be $514 million.

Rabaska noted that stand-alone tolling would result in a decrease in transportation costs from the west whereas the rolled-in approach would increase the tolls. The impact on the LNG supplier of

stand-alone tolling would be the higher cost of transportation as compared to a rolled-in scenario. This would decrease the netback to the LNG supplier. However, the delivered cost of gas for the customer would be similar under both tolling methodologies. Rabaska was of the view that customers would not see the increase in transportation costs resulting from the stand-alone tolling. Although stand-alone tolling would, perhaps, make Cacouna Energy a somewhat less profitable entity, Rabaska stated that it is not the responsibility of the Board – or of TransCanada – to guarantee the profitability of a supplier.

Enbridge

Enbridge was of the view that, on balance, a stand-alone toll methodology was more favourable in this case, the main reason being that the impact of transportation costs could be significant depending on the period in question, and the case one is examining. However, Enbridge acknowledged that it is not entitled to be shielded from increases in transportation costs that arise from expansions or extensions of the Integrated System simply because it is an existing shipper. Enbridge submitted that the impact of the transportation costs that would result under rolled-in tolls is adverse, whereas the impact under stand-alone methodology would be beneficial, for both existing and for new shippers with East bound service from Empress on the Integrated System.

Enbridge mentioned that it was well aware of the Board's prior decisions with regard to toll methodology on the Integrated System. However, Enbridge further specified that a decision by one Panel of the Board is not binding on another Panel of the Board in a subsequent proceeding and therefore, the approval of Gros Cacouna as a receipt point should not in and of itself mandate the rolled-in toll methodology.

Enbridge noted the following factors that the Board should consider when evaluating the appropriate toll methodology. First, a rolled-in toll methodology is not a must-have for either LNG terminal project. Second, the competition is for LNG supply rather than markets. Third, the transportation cost impacts would fall on each project's suppliers rather than on the customers of those suppliers. Finally, the extension of the TQM system would transport supplies into, rather than deliveries from, the Integrated System much like NOVA now does.

Based on the foregoing, Enbridge was of the view that a stand-alone toll methodology in and of itself would not endanger either LNG terminal project.

Mr. Hervieux

In Mr. Hervieux's opinion, the issue is not whether tolls for Gros Cacouna should be determined on a rolled-in or a stand-alone basis, but what criteria the Board should use to establish these tolls in a completely new context. The toll methodology should be able to into take account Canadian markets with respect to imports and exports of energy resources from global sectoral energy reserves and renewable energy development.

Mr. Hervieux submitted a modified toll methodology suggesting that tolls should be based on Canadian averages for the operation, reserves, transportation and distribution of various energy sources by comparing their respective pollution levels and the socio-economic situations of the importing and exporting countries. Following this broad assessment of the energy context,

Mr. Hervieux stated that it would be possible to create a table of all energy sources that would show their respective pollutant emissions levels.

In the modified toll methodology submitted by Mr. Hervieux, TransCanada could benefit from a tariff based on the Canadian average as defined above. Mr. Hervieux was of the view that where volumes exceed the Canadian average, a special higher toll could be applied to the surplus. His justification for these modifications was that they would facilitate the emergence of renewable energy sources and prevent further pollution.

Mr. Hervieux was of the view that an unmodified toll design methodology would create a major bias in favour of certain parties and would move Canada and Quebec further away from their environmental and economic objectives. Accepting TransCanada's methodology could also have repercussions on a number of other countries. Mr. Hervieux stated that the Board should define the criteria for modifying the regulatory methodology before making its final decision in this case.

Mr. Hervieux was also of the view that the Board's mandate should be expanded to allow it to regulate the judicious use of existing and future energy resources in a more comprehensive manner.

ADOE

ADOE submitted that it is a major stakeholder in the WCSB supply source, and an appropriate party to represent this basin's interests. ADOE specified that it was not opposed to supply competition or LNG terminals. In ADOE's view, they are inevitable and likely necessary. However, ADOE opposed TransCanada's request for an affirmation that the existing Integrated System toll methodology be applied to services from the Gros Cacouna receipt point and the inclusion of these costs into TransCanada's revenue requirements. It was ADOE's position that stand-alone tolls for the TQM system, which is Alternative #2 in TransCanada's application, as described in Chapter 2 of these Reasons, would be more appropriate. The supply line should be tolled on a stand-alone basis when gas starts to flow on the extension and a transition period of three to five years from the time LNG first comes on-stream should be allowed before the entire existing TQM system would be tolled on a stand-alone basis.

ADOE was of the view that stand-alone TQM tolls would be consistent with the toll design principles discussed during this proceeding, would meet the test of overall fairness and would result in just and reasonable tolls. ADOE mentioned that since LNG is likely to displace WSCB gas, having western shippers subsidize transportation costs for a competitor's gas would clearly send the wrong economic signals, damage the competitive balance and increase regional price volatility.

To support its position, ADOE mentioned that the Integrated System point-to-point tolls for the LNG project would not result in Petro-Canada paying anywhere close to the costs incurred to provide the new service from the Gros Cacouna receipt point. Furthermore, ADOE also mentioned that since Petro-Canada is not committed to the delivery points specified in the application, the amount paid to TransCanada could be substantially less than identified.

To support its position that stand-alone tolls for the TQM system would be more appropriate, ADOE relied on the fact that the requested receipt point would not be located on the TransCanada system but on the TQM system, which is a separate entity with its own tariff and that LNG supply would largely displace WCSB gas from the TQM system. As a result, the TQM system would be reversed with a null point ranging from Ottawa to Lachenaie. This null point would largely be determined by business decisions of Petro-Canada. Finally, the Cacouna LNG terminal project is not dependent on receiving rolled-in tolls.

Based on the preceding information, ADOE argued that with the introduction of LNG, Quebec transportation costs and supply prices would be less than Ontario's with the stand-alone TQM system; there would be no need for the Mainline shippers to continue subsidizing transportation to the Eastern Zone. Also, ADOE noted that TransCanada would not be the only shipper on the TQM system anymore as Petro-Canada would be a second shipper. ADOE was also of the view that WCSB gas would not be the sole supplier anymore of eastern Canada. With LNG, there would no longer be a homogenous WSCB supply pool all sharing the benefits of the market. Given these circumstances, ADOE was of the view that it would be neither fair nor equitable for western gas to contribute more towards TQM's costs than its proportionate share of the capacity it uses.

ADOE was of the view that the nature of the service would change compared to existing services on the Mainline. ADOE argued that Petro-Canada is requesting a different and new service namely asking for the same toll for a different service for traffic that would flow under substantially different circumstances. ADOE submitted that providing Gros Cacouna with access to an established, served market and displacing existing shippers from that market is a significant change in circumstances. Finally, ADOE noted that TransCanada Pipelines is a partner in the Cacouna LNG terminal project, owns the Bécancour power plant and has an interest in TQM.

ADOE noted that, based on the RH-2-91 Decision on IPL Line 9 and on the RH-2-98 Decision on BC Gas Southern Crossing, the Board agreed that when circumstances change, a change in methodology is appropriate and not discriminatory. ADOE submitted that a new source of supply being connected at significant costs, not to the Mainline but at the terminus of the TQM system, with no new delivery points and significant displacement of traditional west to east supply source by a competing supply source, would be a significant change.

Views of the Board

Guiding Principles and Key Considerations

The Board's mandate under Part IV of the Act, and the principles and key considerations which have informed the Board's decisions on toll methodology issues in past hearings are discussed in section 3.1 above. The statutory requirements in the Act, which includes the requirement that tolls be just and reasonable and not unjustly discriminatory, must be followed. The guiding principles and key considerations have been used by the Board consistently for many years and the Board reaffirms that they have guided its decision-making in this proceeding.

Importance of Toll Methodology

As outlined in section 1.4 of these Reasons, tolls for downstream transportation from an LNG terminal are an important component of the economic feasibility of such a project. Hence, the certainty related to a toll methodology is a critical aspect of these projects. While the Board is not prepared to consider the economic viability of a project in affirming a toll methodology, the Board is mindful of the signal that such a methodology could send to the global LNG market place. In the Board's view, the toll methodology will likely have an impact on the supplier's perception of Canadian competitiveness in the global LNG market and its ability to yield attractive netbacks and subsequently secure supply. The Board believes that the application of the principles and key considerations outlined in section 3.1 will produce a tolling methodology which will form a sound basis for the development of the Canadian LNG market.

Delivery vs. Supply Line

The Board notes Rabaska's view that the Gros Cacouna extension is an "LNG Supply Line" or a "supply extension". In its evaluation of TransCanada's application, the Board did not make any distinction between the fact that the Gros Cacouna extension was used to connect a new source of supply or connect a new market. This distinction is not sufficiently probative to the Board's decision, in this case, to determine if the toll methodology will yield just and reasonable tolls which are not unjustly discriminatory. Furthermore, the Board notes the NORAM Study submitted by TransCanada regarding the potential natural gas market between St. Nicolas and Gros Cacouna. The results of this study were uncontested during this proceeding and the Board is of the view that it is reasonable to expect markets to develop along the future route of the Gros Cacouna extension. Any new market along the extension would then render the "LNG Supply Line" qualifier incorrect since the extension would then be used as a delivery segment. Therefore, the Board is not prepared to accept the differentiation suggested by Rabaska between a supply extension and a delivery extension. Rather, the Board sees the Gros Cacouna extension as a pipeline segment no different than any other segment of the TQM system or, for that matter, the TransCanada system.

Relevance of Toll Impact

As explained in Chapter 2 of these Reasons, the Board acknowledges that the toll methodology proposed by TransCanada, as well as those proposed by the different intervenors, could have toll impacts on existing shippers. However, the Board is of the view that toll and transportation cost impacts are not a principle to be used to determine an appropriate toll methodology, but rather to inform the Board in its decision on the appropriate methodology to approve. The impacts could be small or large

and are not determinative of the Board's decision. The Board reiterates that previous toll payers have no acquired rights and cannot expect to be exempted from a toll increase simply because they have paid tolls in the past. The Board's mandate is to ensure that tolls are just and reasonable and not unjustly discriminatory which does not mean that the tolls must be the lowest tolls in any given case. In this particular proceeding, the Board finds the impact of the toll methodology proposed by TransCanada to be acceptable.

FERC Precedents

With respect to the toll methodology for pipelines from LNG terminals in the United States, the Board is of the view that little weight can be attributed to the examples provided on the record. First, the Board notes that the FERC is a separate regulatory body created in a different jurisdiction which has its own sets of policies. The Board notes that the FERC shifted its policy in 1999 to favour a presumption of incremental tolling for new facilities. While the Board is aware of this policy change, the Board is not bound to apply it and no party has suggested that the Board ought to follow this policy or FERC precedents. The Board notes that, at the most, parties have suggested that the Board should be made aware of these precedents. These precedents, in the Board's view, were not sufficiently canvassed in evidence to offer any persuasive guidance. Even if they had irrefutably supported one methodology over another, the Board would not find them to be determinative in its decision making since, in the end, they may not accord with the Board's own legal requirements, as well as its guiding principles and key considerations which have been described earlier in these Reasons.

Competitive Advantage

Mr. Drazen, Rabaska's toll expert, has stated that the issues in this proceeding should be considered in light of the fact that there is at least one competing project, which is Rabaska. While the Board recognizes that the Cacouna Energy Project would be competing with other potential and existing domestic and global regasification projects to secure LNG supply and markets, the Board accepts TransCanada's argument to the effect that the toll methodology on the Integrated System should not be determined by the existence, nor by the absence, of competing projects. Such circumstances are, in the Board's view, specific to each situation which would make it difficult to apply this potential principle in a consistent manner. The Board also accepts that the toll methodology should be based on what is best for the pipeline system and its users. Even if competitive advantage or competition between customers of a pipeline system could appear to be a desirable economic outcome, the Board is of the view that competition between LNG terminals is already occurring and does not need to be further influenced by a toll methodology that could

compromise the justness and the reasonableness of the tolls on the Integrated System. The Board is mindful of the operation of competitive market forces in determining just and reasonable tolls that are not unjustly discriminatory. Nevertheless, the Board is of the view that even though competition is a useful mechanism in a healthy market economy, it should not be an end in and of itself to be achieved at all costs and should certainly not override the requirements of the Act. Moreover, the Board sees the tolling methodology in this case as only one element of the overall competition between LNG terminals. Therefore, the Board is not convinced that a specific toll methodology would ultimately place the two LNG terminals on an equal footing. As a result, the Board is not prepared to adopt the concept of competitive advantage as a tolling principle.

Mr. Hervieux's Proposal

As stated above, the Board's decision in this case was guided by the principles and key considerations used in previous toll hearings and by the requirements of the Act. Although the Board recognizes that the context in which it must make decisions is constantly changing, it feels that the evidence submitted by Mr. Hervieux is insufficient to add, or eliminate, a principle or key consideration that could guide its decision in a toll hearing such as this. The Board therefore sees no valid reason to accept the toll methodology proposed by Mr. Hervieux.

The Board notes the environmental and economic concerns expressed by Mr. Hervieux and of his request to expand the Board's mandate. However, the Board feels that these are broad public policy issues that rightly fall under the jurisdiction of either the federal government or the provinces, or both, and not under the jurisdiction of the Board. In the Board's opinion, these concerns are not relevant to its examination of TransCanada's application regarding the toll methodology used for the transportation of natural gas from the proposed receipt point at Gros Cacouna. As a result, the Board does not believe that it would be justified for it to suspend its decision in order to define criteria for modifying the regulatory methodology to take into account considerations such as proper control of energy resources and of their pollution levels, since such an exercise would fall outside the Board's mandate.

How the Gros Cacouna extension will be used

The Board notes that the capacity on the Gros Cacouna extension is fully contracted by Petro-Canada for its first 20 years of operation. Petro-Canada also holds 100 percent of the capacity rights at the Cacouna LNG terminal. However, the Board also notes Petro-Canada's intention to "sub-contract" a portion of this LNG terminal capacity and the likelihood that third-party shippers may seek capacity on the Gros Cacouna extension. Both the draft shipper agreements for the Cacouna LNG

terminal and the PA between TransCanada and Petro-Canada provide the possibility of such capacity assignments. In addition, the Board recognizes the evidence submitted on the potential emergence of a spot market for LNG at Gros Cacouna. The Board believes that a developed spot market has the likelihood of increasing a commodity's liquidity and fostering an environment for multiple suppliers and users. In light of this evidence, the Board is of the view that it is reasonable to expect shippers other than Petro-Canada to eventually hold capacity entitlements on the Gros Cacouna extension.

Furthermore, the Board notes that Petro-Canada has asked TransCanada for firm transportation service from the Gros Cacouna receipt point to various delivery points on the TQM system and on the TransCanada Mainline, including two export points. Notwithstanding the fact that these delivery points may change in the future, the Board is of the view that service from Gros Cacouna is neither a custom service nor a distinct service offered exclusively to Petro-Canada. The service is already offered by TransCanada to all shippers elsewhere on the Integrated System and is part of the TransCanada Tariff. Also, the Board accepts TransCanada's evidence that the Cacouna LNG terminal served by the Gros Cacouna extension should create capacity on the Integrated System by enabling shippers to diversify their supply contracts, add flexibility to the system and increase its reliability, thereby benefiting all shippers. This situation is different than the circumstances of the delivery pressure toll discussed in the GH-2-87 case where the Board found that additional delivery pressure had to be tolled incrementally because it was a distinct transportation service and the required facilities did not increase the throughput capacity on the Integrated System.

As noted above, the NORAM Study provides the Board with evidence that the Gros Cacouna extension could eventually benefit other markets than the ones already contemplated by Petro-Canada. Development of such markets would support the view that the Gros Cacouna extension goes beyond Petro-Canada's interests.

For the natural gas market along the Gros Cacouna extension described in the NORAM Study, Gaz Métro would be the distributor. The use by Gaz Métro of services from the Integrated System would result in operational efficiencies. For example, for load balancing in this market, Gaz Métro intends to use the same suite of services as it has traditionally used on the existing Integrated System. The Board considered these factors in making its determination as to whether the Gros Cacouna extension would be part of the Integrated System.

The Board notes that the null point of physical gas flows on the TQM system would vary on a daily basis with distinguishable seasonal patterns, which, in the Board's view, makes it impossible to make a distinction

between the transportation service from Gros Cacouna and standard transportation service elsewhere on the Mainline simply based on the bi-directional flows. In the Board's view, these circumstances are different from those present in the RH-2-91 Decision regarding the IPL Line 9 reversal.

The Board also notes ADOE's argument that the Gros Cacouna extension, as well as the whole TQM system, should be tolled on a stand-alone basis given that the Gros Cacouna receipt point would be on the TQM system, which is a separate entity from TransCanada with its own tariff. As submitted by Gaz Métro, the Board notes that East Hereford is a point on the TQM system and is also listed as a receipt point in TransCanada's tariff. The Board has long considered the TQM system as being integrated with the Mainline. As a result, the fact that the Gros Cacouna receipt point would be located on the TQM system and, concurrently, considered part of the Integrated System would be consistent with past treatment of receipt points on the TQM system.

Toll Methodology on the Gros Cacouna Extension

The Board accepts TransCanada's evidence regarding the level of integration of the Gros Cacouna extension with the existing Integrated System. The Board also notes that the integration of the Gros Cacouna extension with the existing Integrated System would provide significant benefits to shippers. Those benefits are, among other things, an incremental source of supply, increased flexibility and reliability of the Integrated System.

The Board notes Rabaska's concerns regarding the fact that the capacity on the Gros Cacouna extension is solely contracted by Petro-Canada. However, given the nature of the LNG market and the demonstrated interest of suppliers to hold capacity on downstream pipelines, the Board is of the view, as explained earlier in this section, that there is a reasonable expectation that the Gros Cacouna extension would be used by more than one shipper.

In the Board's view, the point-to-point distance-based toll methodology proposed by TransCanada ensures that shippers travelling comparable distances pay comparable tolls. Furthermore, a distance-based toll methodology would reflect the difference in distance to market between the Gros Cacouna and the Rabaska LNG terminals and promote proper price signals. This toll methodology would also, in the Board's view, yield tolls that are not unjustly discriminatory since existing short hauls are tolled in the same manner elsewhere on the Integrated System.

Rabaska and ADOE argued that Petro-Canada would not bear the full cost of the Gros Cacouna extension if a rolled-in methodology was applied to

this segment and that existing Mainline shippers would subsidize Petro-Canada in such a situation. By tolling the Gros Cacouna extension on a rolled-in basis, the Board recognizes that Petro-Canada would not bear the full marginal cost of these pipeline facilities. However, the Board does not accept that this implies that existing Mainline shippers would subsidize Petro-Canada's activities. In the Board's view, it is the growing aggregate demand of all shippers combined with the expected decline of supplies from the WCSB that give rise to the need for new supply requiring additional facilities such as the Gros Cacouna extension. Moreover, the evidence shows that existing Mainline shippers such as Gaz Métro would benefit from this incremental source of supply via the new extension. The Board therefore is of the view that since all Mainline shippers could potentially use the extension and benefit from it, it is appropriate for them to contribute to the recovery of the costs of this extension through tolls that respect the cost-based/user-pay principle. Accordingly, it is the Board's view that, in this case, a rolled-in methodology would best satisfy this principle.

Based on these findings, it is the Board's view that the services from the Gros Cacouna receipt point should be tolled on a rolled-in basis in accordance with TransCanada's prevailing toll methodology and that tolls resulting from this methodology would be just and reasonable and not unjustly discriminatory.

Changed Circumstances

The Board notes Union's argument that its support of the application was qualified and stated that should the facts differ materially from the assumptions presented in the application, existing TransCanada shippers should not be required to bear the consequences of those changes.

The Board convened this hearing to provide regulatory certainty to the parties. In doing so, the Board was cognizant that the factual premise upon which its decision would be based could change and that a future panel would not be bound by the Board's decision in this case. The Board is confident that its decision will have a lasting value. However, as is the case for any decision of the Board, should the factual premises upon which the Board's decision is grounded substantially change, such that a doubt as to the applicability of its decision could be raised in the future, parties can always seek a review of the Board's decision.

Decision

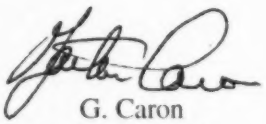
The Board approves the applied-for toll methodology for service from the Gros Cacouna receipt point which is in accordance with the prevailing rolled-in toll methodology on

TransCanada's Integrated System. This approval will become effective when the facilities required to connect the Gros Cacouna receipt point to TransCanada's Integrated System are approved and placed in service.

Chapter 4

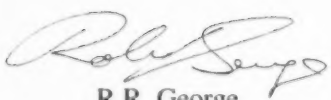
Disposition

The foregoing chapters, together with Order TG-07-2007, constitute our Reasons for Decision with respect to TransCanada's Gros Cacouna receipt point application heard by the Board in the RH-1-2007 proceeding.



G. Caron
Presiding Member

J.S. Bulger
Member



R.R. George
Member

Calgary, Alberta
July 2007

Appendix I

Toll Order TG-07-2007

ORDER TG-07-2007

IN THE MATTER OF the *National Energy Board Act* (Act) and the Regulations made thereunder; and

IN THE MATTER OF an application by TransCanada PipeLines Limited dated 5 December 2006 pursuant to Part IV of the Act for approval of a new receipt point at Gros Cacouna, Quebec for the receipt of regasified liquefied natural gas and the toll methodology that will apply to service from that point, filed with the National Energy Board under File No. OF-Tolls-Group1-T211-2006-10 01; and

IN THE MATTER OF Hearing Order RH-1-2007.

HEARD in the city of Québec, Quebec on 16, 17, 18, 19, 20, 23 and 24 April 2007.

BEFORE the Board on 21 June 2007.

WHEREAS TransCanada filed an application dated 5 December 2006, as amended on 13 February 2007, pursuant to Part IV of the Act, for an Order approving a new receipt point at Gros Cacouna, Quebec and the toll methodology that will apply to service from that point;

AND WHEREAS on 22 January 2007, the Board issued Hearing Order RH-1-2007;

AND WHEREAS an oral public hearing was held during which the Board heard the evidence and arguments presented by TransCanada and all interested parties;

AND WHEREAS the Board's decisions on the application are set out in its RH-1-2007 Reasons for Decision dated July 2007, and in this Order;

IT IS ORDERED THAT, pursuant to Parts I and IV of the Act:

1. Gros Cacouna is designated as a receipt point on the TransCanada Integrated System.

2. The corresponding tolls for service on TransCanada's Integrated System from Gros Cacouna are established in accordance with the current rolled-in toll methodology and as described in the Gros Cacouna receipt point application.

3. The prudently incurred costs required to provide service from Gros Cacouna, as determined in a future application, may be included in the determination of TransCanada's Mainline revenue requirement.

4. This order will become effective when the facilities required to connect the Gros Cacouna receipt point to TransCanada's Integrated System are approved and placed in service.

NATIONAL ENERGY BOARD

David Young
Acting Secretary